

OFFICIAL STATEMENT DATED JUNE 11, 2015

Rating: See "Rating" herein.
Standard & Poor's Rating Group: AAA

New Issue

In the opinion of Locke Lord LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. The Bonds will be designated as 'qualified Tax-exempt Obligations' for purposes of Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "THE BONDS- Tax Exemption" herein.

TOWN OF ANDOVER, MASSACHUSETTS
\$7,155,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2015 BONDS

DATED
Date of Delivery

DUE
June 15
(as shown below)

The Bonds are issuable only in fully registered form, registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form in the denomination of \$5,000, or any integral multiple thereof. (See "Book-Entry-Transfer System" herein.)

Principal of the Bonds will be payable June 15 of the years in which the Bonds mature. Interest on the Bonds will be payable June 15 and December 15, commencing December 15, 2015. Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds are subject to redemption prior to their stated maturity dates as stated herein.

An opinion of Bond Counsel will be delivered with the Bonds to the effect that the Bonds are valid general obligations of the Town of Andover, Massachusetts and that the principal of and interest on the Bonds are payable from taxes that may be levied upon all taxable property in the Town without limitation as to rate or amount except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws (Proposition 2 ½), and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELD AND CUSIPS

Due June 15	Principal Amount	Interest Rate	Price/or Yield	Cusip 034285	Due June 15	Principal Amount	Interest Rate	Yield	Cusip 034285
2016	\$ 655,000	2.00	% 0.45 %	5X0	2021	\$ 515,000	4.00	% 1.70 %	6C5
2017	645,000	3.00	0.75	5Y8	2022	515,000	4.00	1.90	6D3
2018	635,000	4.00	1.10	5Z5	2023	510,000	4.00	2.00	6E1
2019	630,000	4.00	1.35	6A9	2024	505,000	4.00	2.15	6F8
2020	630,000	4.00	1.50	6B7	2025	505,000	4.00	2.30	6G6

\$585,000 Interest Rate 3.00% Term Bond Maturing June 15, 2028 Yield 2.65% Cusip # 034285 6K7
\$390,000 Interest Rate 3.00% Term Bond Maturing June 15, 2030 Yield 2.75% Cusip # 034285 6M3
\$435,000 Interest Rate 3.25% Term Bond Maturing June 15, 2035 Yield 3.25% Cusip # 034285 6S0

The Bonds are offered subject to the final approving opinion of Locke Lord LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein and in the Notice of Sale. First Southwest Company, LLC, Boston, Massachusetts has acted as Financial Advisor to the Town of Andover, Massachusetts, with respect to the Bonds. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about June 19, 2015, against payment to the Town in federal funds.

JANNEY MONTGOMERY SCOTT LLC

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY STATEMENT	3	TOWN FINANCES:	
NOTICE OF SALE	4	The Budget and Appropriation Process	30
OFFICIAL STATEMENT	7	Operating Budget Trends	30
INTRODUCTION	7	Revenues	31
THE BONDS	7	Property Taxes	31
Description of the Bonds	7	State Aid	31
Redemption Provisions	7	Motor Vehicle Excise	31
Notice of Redemption	8	Water Rates and Services	31
Record Date	8	Sewer Rates and Services	31
Book-Entry-Transfer System	8	Room Occupancy Tax	31
Authorization of the Bonds and Use of Proceeds	10	Other	31
2015 Bonds – Principal Payments by Purpose	11	State Distributions	32
Tax Exemption	11	State School Building Assistance Program	32
Security and Remedies	12	Investment of Town Funds	33
Opinion of Bond Counsel	14	Annual Audits	33
Rating	14	Financial Statements	33
Financial Advisory Services of First Southwest Company	14	Combined Balance Sheets - Fiscal Year Ending:	
Continuing Disclosure	14	June 30, 2014	34
THE TOWN OF ANDOVER, MASSACHUSETTS:		June 30, 2013	35
General	15	June 30, 2012	36
Local Government	15	Statement of Revenues, Expenditures and	
Principal Executive Officers	15	Changes in Fund Balances:	
Municipal Services	15	June 30, 2014 – 20110	37
Education	15	Unassigned/Undesignated General Fund Balances	41
Public School Enrollments	16	Stabilization Fund	41
Industry and Commerce	16	Additional Funds Available for Appropriations	42
Largest Employers	17	Tax Increment Financing for Development Districts	42
Economic Development Summary	17	INDEBTEDNESS:	
Labor Force, Employment and Unemployment Rate	20	Authorization Procedure and Limitations	43
Building Permits	21	Debt Limits	43
Transportation and Utilities	21	Types of Obligations	43
Population, Income and Wealth Levels	21	Direct Debt Summary	44
PROPERTY TAXATION:		Debt Ratios	45
Tax Levy Computation	22	Principal Payments by Purpose	45
Assessed Valuations and Tax Levies	23	Debt Service Projected	46
Assessed Valuations and Tax Rates	23	Authorized Unissued Debt	
Property Classification	23	and Prospective Financing	47
Largest Taxpayers	24	Overlapping Debt	47
State Equalized Valuation and Estimated Full Value Rate	24	Contractual Obligations	48
Abatements and Overlay	24	Retirement Plan	48
Overlay Reserve and Abatements and Exemptions	25	Funding Schedule	50
Tax Collections	25	Other Post-Employment Benefits	50
Tax Titles and Possessions	25	Projection of Arc	51
Taxation to Meet Deficits	26	Funding Schedule	52
Tax Limitations	26	Employee Relations	53
Unused Levy Capacity	28	Litigation	53
Sale of Tax Receivables	28	APPENDIX A - Fiscal 2014 Audit	
Pledged Taxes	28	APPENDIX B - Proposed Form of Legal Opinion of Bond Counsel	
Community Preservation Act	28	APPENDIX C – Proposed Form of Continuing Disclosure Certificate	

The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in the Official Statement.

Date of Sale: Thursday, June 11, 2015, 11:00 A.M. (Eastern Daylight Time).

Location of Sale: First Southwest Company, LLC, 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114.

Issuer: Town of Andover, Massachusetts.

Issue: \$7,155,000 General Obligation Municipal Purpose Loan of 2015 Bonds, (see "THE BONDS Book-Entry-Transfer System" herein).

Official Statement Dated: June 11, 2015.

Dated Date of the Bonds: As of their date of delivery.

Principal Due: Serially, June 15, 2016 through June 15, 2025, three Term Bonds maturing June 15, 2028, June 15, 2030 and June 15, 2035, as detailed herein.

Purpose and Authority: Bond proceeds will be used to finance various municipal projects, as detailed herein. See "Authorization of the Bonds and Use of Proceeds."

Redemption: The Bonds are subject to redemption prior to their stated maturity dates as stated herein.

Security: The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town without limitation as to rate or amount except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws (Proposition 2½), and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

Credit Rating: Standard & Poor's Rating Group has assigned a rating of AAA to the Bonds.

Bond Insurance: The Town has not contracted for the issuance of any policy of municipal bond insurance or any other credit enhancement facility.

Basis of Award: Lowest True Interest Cost (TIC), as of the dated date. **BIDS MUST INCLUDE A PREMIUM OF AT LEAST \$70,000.**

Tax Exemption: Refer to "THE BONDS - Tax Exemption" herein and Appendix B, "Proposed Form of Legal Opinion."

Continuing Disclosure: Refer to "THE BONDS - Continuing Disclosure" herein and Appendix C, "Proposed Form of Continuing Disclosure Certificate."

Bank Qualification: The Bonds will be designated by the Town as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Paying Agent: U.S. Bank National Association, Boston, Massachusetts.

Legal Opinion: Locke Lord LLP, Boston, Massachusetts.

Financial Advisor: First Southwest Company, LLC, Boston, Massachusetts.

Delivery and Payment: It is expected that delivery of the Bonds in book-entry only form will be made to The Depository Trust Company, or to its custodial agent, on or about June 19, 2015, against payment in Federal Funds.

Issuer Official: Questions concerning the Official Statement should be addressed to: David J. Reilly, Treasurer, Town of Andover, Massachusetts (telephone: (978) 623-8250 or Peter Frazier, Senior Vice President, First Southwest Company, LLC, Boston, Massachusetts Telephone (617) 619-4409).

NOTICE OF SALE

TOWN OF ANDOVER, MASSACHUSETTS

\$7,191,000* GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2015 BONDS

The Town of Andover, Massachusetts (the "Town") will receive sealed and electronic (as described herein) proposals until 11:00 A.M., Eastern Time, Thursday, June 11, 2015, for the purchase of the following described General Obligation Municipal Purpose Loan of 2015 Bonds of the Town (the "Bonds"):

\$7,191,000* General Obligation Municipal Purpose Loan of 2015 Bonds payable June 15 of the years and in the amounts as follows:

Due June 15	Principal Amount*	Due June 15	Principal Amount*
2016	\$ 661,000	2026	** \$ 195,000
2017	650,000	2027	** 195,000
2018	635,000	2028	** 195,000
2019	630,000	2029	** 195,000
2020	630,000	2030	** 195,000
2021	515,000	2031	** 95,000
2022	515,000	2032	** 95,000
2023	510,000	2033	** 90,000
2024	505,000	2034	** 90,000
2025	505,000	2035	** 90,000

**Callable maturities. May be combined into three Term Bonds as described herein.

The Bonds will be dated their date of delivery. Principal of the Bonds will be payable on June 15 of the years in which the Bonds mature. Interest will be payable on June 15 and December 15, commencing December 15, 2015.

The Bonds will be issued by means of a book-entry system with no physical distribution of the Bonds made to the public. One certificate for each maturity of the Bonds will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. Ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with the exception of one \$1,000 denomination maturing in 2016, will be evidenced by a book-entry system with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures established by DTC and its Participants. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co. Interest and principal on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC. Transfer of principal and interest payments to beneficial owners will be the responsibility of such participants and other nominees of beneficial owners. The Town will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

The original Bonds to be immobilized at DTC will be prepared under the supervision of First Southwest Company, LLC, Boston, Massachusetts and their legality will be approved by Locke Lord LLP, Boston, Massachusetts, whose opinion will be furnished to the purchaser without charge to such purchaser.

Redemption Provisions

The Bonds maturing on June 15 in the years 2016 through 2025 will not be subject to redemption prior to maturity. The Bonds maturing on and after June 15, 2026 shall be subject to redemption prior to maturity, at the option of the Town, on or after June 15, 2025, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed.

For Bonds maturing on June 15, 2026, and thereafter, bidders may specify that all of the principal amount of such Bonds in any two or more consecutive years may, in lieu of maturing in each such year, be combined to comprise one maturity of Term Bonds scheduled to mature in the latest of the combined years, and shall be subject to mandatory redemptions prior to maturity at par as described above, in each of the years and in the principal amounts specified in the foregoing maturity schedule. Each mandatory redemption shall be allocated to the payment of the term bond maturing in the nearest subsequent year. Bidders may specify no more than three Term Bonds.

Term Bonds, if any, shall be subject to mandatory redemption on June 15 of the year or years immediately prior to the stated maturity of such Term Bond (the particular Bonds of such maturity to be redeemed to be selected by lot) as indicated in the foregoing maturity schedule at the principal amount thereof, without premium.

*Preliminary, subject to change.

Bidding Parameters

As between proposals which comply with this Notice of Sale, the award will be to the bidder who offers to purchase all the Bonds at the lowest net effective interest rate to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of the delivery date, discounts semiannually all future payments on account of principal and interest to the price bid. In the event there is more than one proposal specifying the lowest such rate, the Bonds will be awarded to the bidder whose proposal is selected by the Town Treasurer by lot among all such proposals.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/20 or 1/8 of one percent, but shall not state (a) more than one interest rate for any Bonds having a like maturity, (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3 percent, or **(c) no coupon in excess of 5.0%. No bid of less than par plus a premium of at least \$70,000 will be accepted.** It is noted that the Town will restructure the maturity schedule to reflect the actual premium received as noted below.

The Town reserves the right to change the aggregate principal amount of the Bonds and the maturity schedule after the determination of the winning bid by increasing or decreasing the aggregate principal amount and the principal amount of each maturity by such amounts as may be necessary to change the maturity schedule of the bonds after the determination of the winning bid by decreasing the par amount of this portion of the bonds by its pro-rata share of the premium received, and increasing or decreasing the amount of each maturity by such amounts as may be necessary to provide sufficient funds for each project. The dollar amount bid for the Bonds by the winning bidder will be adjusted, if applicable, to reflect changes in the dollar amount of the amortization schedule. Any price that is adjusted will reflect changes in the dollar amount of the underwriter's discount and original issue premium, if any, but will not change the per bond underwriter's discount (net of insurance premium, if any) provided in such bid. Nor will it change the interest rate specified for each maturity. Any such adjustments will be communicated to the winning bidder for the Bonds by 4 P.M. on the day of the sale.

Bids must be submitted either:

- (a) In a sealed envelope marked "Proposal for Bonds" and addressed to David J. Reilly, Treasurer/Collector, Town of Andover, Massachusetts c/o First Southwest Company, LLC, 54 Canal Street, Boston, Massachusetts 02114. Signed blank bid forms may be faxed to (617) 619-4411 prior to submitting bids, and actual bids may be telephoned to First Southwest Company, LLC, telephone (617) 619-4400, at least one-half hour prior to the 11:00 A.M. sale and after receipt of the faxed bid form by First Southwest Company, LLC. First Southwest Company, LLC will act as agent for the bidder, but neither the Town nor First Southwest Company, LLC shall be responsible for any errors in connection with bids submitted in this manner.
- (b) Electronically via Parity in accordance with this Notice of Sale. To the extent any instructions or directions set forth in Parity conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about Parity, potential bidders may contact the Financial Advisor to the Town or I-deal at 40 West 23rd Street, 5th Floor, New York, NY 10010 (212) 404-8102. An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Bonds in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the Town.

The award of the Bonds to the winning bidder will not be effective until the bid has been approved by the Treasurer and the Board of Selectmen of the Town.

The right is reserved to reject all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any proposal.

The Town of Andover has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder, except for the fee paid to Standard & Poor's Rating Service for a rating on the Bonds. Any such fee paid to Standard & Poor's Rating Service would be borne by the Town.

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that it shall be furnished, without cost, with (a) the approving opinion of the firm of Locke Lord LLP, Boston, Massachusetts, substantially in the form appearing as Appendix B of the Preliminary Official Statement dated June 4, 2015, (b) a certificate in the form satisfactory to Bond Counsel dated as of the date of delivery of the Bonds and receipt of payment therefor to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened which affects the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Treasurer to the effect that, to the best of the knowledge and belief of the signer thereof, as of the date of sale the Preliminary Official Statement did not, and as of the date of the delivery of the Bonds, the Final Official Statement does not, contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and (d) a Continuing Disclosure Certificate in the form described in the Preliminary Official Statement.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel generally to the effect that (i) as of June 11, 2015 (the "Sale Date"), the purchaser had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement dated June 4, 2015.

The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986 as amended (the "Code").

Additional information concerning the Town and the Bonds is contained in the Preliminary Official Statement dated June 4, 2015, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. Said Preliminary Official Statement is deemed final by the Town except for the omission of the reoffering price(s), interest rate(s), delivery date, the identity of the underwriter(s), and any other pertinent terms of the Bonds depending on such matters, but is subject to change without notice to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement may be obtained from First Southwest Company, LLC, 54 Canal Street, Boston, Massachusetts 02114 (Telephone: 617-619-4400). Within seven (7) business days following the award of the Bonds in accordance herewith, 20 copies of the Final Official Statement will be available from the First Southwest Company, LLC to the successful bidder for use in reoffering the Bonds. Upon request, additional copies will be provided at the expense of the requester.

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the Town, provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau or other charge that may be imposed for the assignment of such numbers.

The Bonds in definitive form will be delivered to The Depository Trust Company or its custodial agent on or about June 19, 2015 for settlement in federal funds.

TOWN OF ANDOVER, MASSACHUSETTS
/s/ David J. Reilly, Treasurer

June 4, 2015

OFFICIAL STATEMENT

TOWN OF ANDOVER, MASSACHUSETTS

\$7,155,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2015 BONDS

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Andover, Massachusetts (the "Town") in connection with the sale of \$7,155,000 stated principal amount of its General Obligation Municipal Purpose Loan of 2015 Bonds (the "Bonds"). The information contained herein has been furnished by the Town, except information attributed to another governmental agency or official as the source.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will bear interest payable semiannually on June 15 and December 15, commencing December 15, 2015. The Bonds shall mature on June 15 of the years and in the principal amounts as set forth on the first page of this Official Statement.

The Bonds are issuable only in fully registered form, without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Transfer System" herein.)

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Redemption Provisions

Optional Redemption

Bonds maturing on or prior to June 15, 2025 shall not be subject to redemption prior to their stated maturity dates. Bonds maturing on or after June 15, 2026 shall be subject to redemption prior to maturity, at the option of the Town, on or after June 15, 2025, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

The Bonds maturing June 15, 2028, June 15, 2030 and June 15, 2035 (the "Term Bonds") are subject to mandatory redemption or maturity on each of the dates and in each of the principal amounts as set forth below (the particular portion of each Term Bond to be redeemed or to mature on the final maturity date to be delivered by lot), at a redemption price of par, plus accrued interest, if any, to the redemption date.

\$585,000 Term Bond Maturing June 15, 2028

<u>June 15</u>	<u>Principal Amount</u>
2026	\$ 195,000
2027	195,000
2028 *	195,000

\$390,000 Term Bond Maturing June 15, 2030

<u>June 15</u>	<u>Principal Amount</u>
2029	\$ 195,000
2030 *	195,000

\$435,000 Term Bond Maturing June 15, 2035

<u>June 15</u>	<u>Principal Amount</u>
2031	\$ 90,000
2032	90,000
2033	85,000
2034	85,000
2035 *	85,000

*Final maturity.

Notice of Redemption

So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or the portion thereof) to be redeemed shall be mailed to DTC not more than sixty (60) days nor less than thirty (30) days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants, Indirect Participants, or of a nominee of a Beneficial Owner (having received notice from DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption.

Record Date

The record date for each payment of interest is the last business day of the month preceding the interest payment date; provided that, if such day is not a business day, the record date shall be the next succeeding business day, and provided further that with respect to overdue interest, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the Bondowners at least ten (10) days before the special record date.

Book-Entry Transfer System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing

corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security deposited by DTC ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities deposited by DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with DTC; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC if less than all of a maturity is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with DTC unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Town or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

Authorization of the Bonds and Use of Proceeds

The following table sets forth the purposes, principal amounts, amounts authorized, statutory references and dates of approval, for the current offering of Bonds.

Purpose	This Issue	Total Amount Authorized	M.G.L. Chapter Reference, Ch. 44,	Date Authorized
Closing Landfill	\$ 700,000	\$ 2,200,000	s. 8(24)	4/27/1999
Sidewalk Construction	138,000	138,000	s.7(6)	5/6/2014
Technology Infrastructure	200,000	2,500,000	s.7(28) or 7(29)	5/1/2012
Town & School Energy Initiatives	236,000	236,000	7(3B)	5/12/2014
Town Building & Facility Maintenance	467,000	467,000	s.7(3A)	5/12/2014
DPW Vehicles	260,000	260,000	s.7(9)	5/12/2014
School Building Maintenance & Renovation	1,500,000	1,500,000	s.7(3A)	5/13/2014
Town Playground Replacements & Handicapped Accessibility	150,000	150,000	s. 7(25)	5/12/2014
Additional Bancroft School	1,064,000 (1)	5,715,000 (1)	70B	2/11/2013
Bancroft School	100,000	43,835,000 (2)	70B	12/6/2010
Water Distribution Maintenance	500,000	500,000	s.8(5)	5/1/2012
Water Distribution Maintenance Program	500,000	500,000	s.8(5)	5/8/2013
Fire Hydrant Infrastructure Maintenance 1	500,000	1,000,000	s.8(7C)	5/8/2013
Fire Hydrant Infrastructure Maintenance 2	500,000	500,000	s.8(7C)	5/6/2014
Water Treatment Plant Equipment	340,000	440,000	s.8(7C)	4/28/2011
Total	<u>\$ 7,155,000</u>			

(1) Approximately 75% of this authorization is exempt from limitations of Proposition 2 ½.

(2) This issue is exempt from the limitations of Proposition 2 ½.

2015 Bonds - Principal Payments by Purpose

Maturity Year	Closing Landfill	Sidewalk Construction	Technology Infrastructure	Town & School Energy Initiatives	Town Building & Facility Maintenance	DPW Vehicles	School Building Maintenance & Renovation	Town Playground Replacements & Handicapped Accessibility	Additional Bancroft School
2016	\$ 35,000	\$ 33,000	\$ 40,000	\$ 26,000	\$ 52,000	\$ 55,000	\$ 100,000	\$ 15,000	\$ 15,000
2017	35,000	30,000	40,000	25,000	50,000	55,000	100,000	15,000	15,000
2018	35,000	25,000	40,000	25,000	50,000	50,000	100,000	15,000	15,000
2019	35,000	25,000	40,000	25,000	45,000	50,000	100,000	15,000	15,000
2020	35,000	25,000	40,000	25,000	45,000	50,000	100,000	15,000	15,000
2021	35,000			25,000	45,000		100,000	15,000	15,000
2022	35,000			25,000	45,000		100,000	15,000	15,000
2023	35,000			20,000	45,000		100,000	15,000	15,000
2024	35,000			20,000	45,000		100,000	15,000	15,000
2025	35,000			20,000	45,000		100,000	15,000	15,000
2026	35,000						100,000		15,000
2027	35,000						100,000		15,000
2028	35,000						100,000		15,000
2029	35,000						100,000		15,000
2030	35,000						100,000		15,000
2031	35,000								15,000
2032	35,000								15,000
2033	35,000								10,000
2034	35,000								10,000
2035	35,000								10,000
Totals	\$ 700,000	\$ 138,000	\$ 200,000	\$ 236,000	\$ 467,000	\$ 260,000	\$ 1,500,000	\$ 150,000	\$ 285,000

Maturity Year	Bancroft School	Additional Bancroft School	Water Distribution Maintenance	Water Distribution Maintenance Program	Fire Hydrant Infrastructure Maintenance 1	Fire Hydrant Infrastructure Maintenance 2	Water Treatment Facility	TOTAL
2016	\$ 5,000	\$ 44,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 35,000	\$ 655,000
2017	5,000	40,000	50,000	50,000	50,000	50,000	35,000	645,000
2018	5,000	40,000	50,000	50,000	50,000	50,000	35,000	635,000
2019	5,000	40,000	50,000	50,000	50,000	50,000	35,000	630,000
2020	5,000	40,000	50,000	50,000	50,000	50,000	35,000	630,000
2021	5,000	40,000	50,000	50,000	50,000	50,000	35,000	515,000
2022	5,000	40,000	50,000	50,000	50,000	50,000	35,000	515,000
2023	5,000	40,000	50,000	50,000	50,000	50,000	35,000	510,000
2024	5,000	40,000	50,000	50,000	50,000	50,000	30,000	505,000
2025	5,000	40,000	50,000	50,000	50,000	50,000	30,000	505,000
2026	5,000	40,000						195,000
2027	5,000	40,000						195,000
2028	5,000	40,000						195,000
2029	5,000	40,000						195,000
2030	5,000	40,000						195,000
2031	5,000	35,000						90,000
2032	5,000	35,000						90,000
2033	5,000	35,000						85,000
2034	5,000	35,000						85,000
2035	5,000	35,000						85,000
Totals	\$ 100,000	\$ 779,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 340,000	\$ 7,155,000

Tax Exemption

In the opinion of Locke Lord LLP, Bond Counsel to the Town ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the opinion of Bond Counsel, the Bonds are "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Town has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the

Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion regarding any other Massachusetts tax consequences or as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a Bondholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described above (see "*Serial Bonds and Notes*" under "INDEBTEDNESS-TYPES OF OBLIGATIONS" below) and setoffs of state distributions as

described below (see “*State Distributions*” below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year “all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments”. Specific provision is also made for including in the next tax levy payments of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid, if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See “*Tax Limitations*” Under “PROPERTY TAXATION” below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See “INDEBTEDNESS-Authorization Procedures and Limitations” below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See “*Tax Limitations*” under “PROPERTY TAXATION” below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on “qualified bonds” (See “*Serial Bonds and Notes*” under “INDEBTEDNESS-TYPES OF OBLIGATIONS” below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority (“MBTA”) or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority (“MWRA”) if the city or town is within the territory served by the MWRA, for any debt service due on obligations issued to the Massachusetts School Building Authority (“MSBA”), or for charges necessary to meet obligations

under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by The Commonwealth of Massachusetts (the "Commonwealth") to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings have been approved or made.

Opinion of Bond Counsel

The purchaser will be furnished the legal opinion of the firm of Locke Lord LLP, Bond Counsel to the Town. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder. The opinion will be substantially in the form presented in Appendix B.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel is not passing upon and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and makes no representation that they have independently verified the same.

Rating

Standard and Poor's Ratings Group has assigned a rating of AAA to the Bonds. Said rating reflects only the rating agency's views and is subject to revision or withdrawal, which could affect the market price of the Bonds.

Financial Advisory Services of First Southwest Company, LLC

First Southwest Company, LLC, Boston, Massachusetts serves as financial advisor to the Town of Andover, Massachusetts.

Continuing Disclosure

In order to assist Underwriters in complying with Rule 15c2-12 (b)(5) promulgated by the Securities and Exchange Commission, (the "Rule"), the Town will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Town by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain significant events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds.

The Town believes that in the previous five years, it has complied in all material respects with its previous undertakings to provide annual reports or notices of significant events in accordance with the Rule.

TOWN OF ANDOVER, MASSACHUSETTS

General

The Town of Andover is located in Essex County approximately 22 miles north of Boston on the Merrimack River. Andover has a population of approximately 33,201 (2010 federal census) and occupies a land area of 32 square miles. The Town is governed by an open town meeting and administered by a Town Manager and a five-member Board of Selectmen.

The following table sets forth the principal executive officials of the Town.

Principal Town Officials

Town Title	Name	Selection	Term Expires
Selectman, Chair	Mary T. O'Donoghue	Elected	2017
Selectman, Vice Chair	Alexander J. Vispoli	Elected	2016
Selectman, Secretary	Paul J. Salafia	Elected	2016
Selectman	Daniel H. Kowalski	Elected	2018
Selectman	Robert A. Landry	Elected	2018
Town Manager	Reginald S. Stapczynski	Appointed	2015
Director of Finance	Donna M. Walsh	Appointed	Indefinite
Treasurer/Collector	David J. Reilly	Appointed	Indefinite
Acting Town Accountant	Theo Moccia	Appointed	2017
Town Clerk	Lawrence J. Murphy	Appointed	Indefinite

Municipal Services

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of solid waste, water and sewer services, schools for grades kindergarten through 12, street maintenance, parks and recreational facilities, a library and a land conservation program. The Andover Housing Authority provides housing for the elderly and low-income families.

The Greater Lawrence Regional Vocational Technical High School District provides vocational and technical education for students in grades 9 through 12.

The Town operates its own water supply, purification and distribution system providing water services to essentially all residential, industrial and commercial users in the Town. The Town provides the Town of North Reading with water on an emergency basis.

Wastewater treatment services are provided for many of the Town's residential users and essentially all of the Town's industrial and commercial users via connections to the Greater Lawrence Sanitary District. The Town's Public Works Department is responsible for the operation and maintenance of the Town's wastewater pumping stations and the entire system of sanitary sewers.

Education

The Town's public school facilities include five elementary schools and one early childhood center, three middle schools and one senior high school.

The following table, provided by the Andover School Department, sets forth the trend in public school enrollments for the last five years.

PUBLIC SCHOOL ENROLLMENTS - OCTOBER 1

	Actual				
	2010	2011	2012	2013	2014
Elementary (PK-5)	2,877	2,887	2,903	2,805	2,757
Middle School (6-8)	1,531	1,526	1,535	1,511	1,560
Senior High	1,802	1,803	1,816	1,800	1,760
Total	<u>6,210</u>	<u>6,216</u>	<u>6,254</u>	<u>6,116</u>	<u>6,077</u>

In the mid 1990's, the Town borrowed approximately \$42,000,000 for additions to and reconstruction of Andover High School, the South Elementary School and the Sanborn Elementary School. The debt service was excluded from the limits of Proposition 2 ½ and the Town is receiving a reimbursement from the State School Building Assistance Program for 60% of construction and interest expenses. There is approximately \$5,796,435 remaining in State grant payments to be received. These projects upgraded facilities and increased available capacity. In December 2010, the Town authorized \$43.8 million for the construction of a new K to five, 680 student, Bancroft Elementary School. In February 2013, the Town authorized \$5,715,000 bonds to cover additional costs of the project. The Massachusetts School Building Authority has agreed to provide grants of approximately \$15.7 million of project costs for the Bancroft School. In December 2012, the Town issued \$14 million bonds for a portion of the Town's share of project costs. All but approximately \$962,000 of these authorizations, and associated interest, are excluded from the limits of Proposition 2 ½.

The Town is also a member of the Greater Lawrence Regional Vocational Technical High School District. Other members include Lawrence, North Andover and Methuen. Andover enrollment averages less than 2% of District total enrollment. The District has recently completed a substantial reconstruction of its facilities. (See Overlapping Debt).

Industry and Commerce

The Town of Andover is primarily residential in character but has a substantial amount of industry. Manufacturing is the leading economic pursuit. The table below sets forth the major categories of income and employment in the Town during the following calendar years.

Industry	Calendar Year Average				
	2009	2010	2011	2012	2013
Construction	440	448	447	476	413
Manufacturing	9,629	9,936	10,605	9,592	9,453
Trade, Transportation and Utilities	1,997	1,979	2,029	2,487	2,609
Information	1,416	1,255	1,171	1,197	1,235
Financial Activities	1,361	1,967	1,920	1,869	1,891
Professional and Business Services	8,065	8,035	8,173	10,035	9,811
Education and Health Services	4,932	4,355	4,248	4,348	4,395
Leisure and Hospitality	1,682	1,721	1,784	1,909	1,978
Other Services	660	670	647	666	617
Total Employment	<u>30,182</u>	<u>30,366</u>	<u>31,024</u>	<u>32,579</u>	<u>32,402</u>
Number of Establishments	1,122	1,667	1,195	1,195	1,180
Average Weekly Wages	\$ 1,440	\$ 1,498	\$ 1,562	\$ 1,612	\$ 1,637
Total Wages	<u>\$ 2,383,395,873</u>	<u>\$ 2,463,133,945</u>	<u>\$ 2,625,047,003</u>	<u>\$ 2,842,281,090</u>	<u>\$ 2,897,219,066</u>

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence. Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Largest Employers

The following table lists the largest employers in Andover, exclusive of the Town itself.

Name	Product/Function	Approximate Number of Employees
Raytheon Co. & Endrock Associates	Missile Systems	4,750
Internal Revenue Service	Regional Service Center	3,500
Phillips Healthcare	Medical Electronics	2,300
Pfizer	Biopharmaceuticals (RDNA)	1,200
Putman Investments	Mutual Funds	900
Vicor	Computer Equipment	850
Verizon New England	Communications	600
Phillips Academy	Private School	555
Enterasys	Data Processing Services	500
Hewlett Packard Services	Computer Equipment	500
Smith & Nephew	Medical Devices	500
Zwicker & Associates	Law Firm	350
Draeger Medical	Medical and safety technology	300
CGI	Technology Research & Mfg	273
Northrop Grumman	Defense Systems	265
Esai Research Institute	Research	258
Procter + Gamble (formerly Gillette)	Beauty Care Products	250
Andover Country Club	Banquet Room/Golf Courses	240
Greater Lawrence Technical	School	230
Straumann	Dentistry	255
The Andover Companies	Insurance	217
Injured Workers Pharmacy	Pharmacy	200
Polycom	Technology	150
WSI	Data Processing Services	120
Massachusetts School of Law	Education	110
DeMoulas	Grocery Store	100
Caradigm (Formerly Microsoft)	Technology	100
MKS	Mfg. Instruments	90
Alabanza Corporation	Research and Investing Information	85

Economic Development Summary

The development climate in Andover continues to reflect positive trends and activities. The River Road industrial district along I-93 continues to provide jobs for approximately 9,000 people in a built environment of more than 6,000,000 square feet of office, research and development, and hi-tech manufacturing space. The district has capacity for more than an additional 1,000,000 square feet of expansion. The River Road area is home to numerous medical device and pharmaceutical companies such as Philips Medical with more than 2,300 employees, Smith + Nephew Endoscopy, Eisai Research **Institute**, Transmedics, Inc., the Straumann Company, Draeger Medical, Charm Sciences Inc and Formatech Inc. More recently, Sarepta Therapeutics has acquired 100 Federal Street and is currently renovating the existing 57,000 sf facility.

There are several electronics, communications, and financial companies in the district as well, Navisite, Navistar, Motorola-Quantum Bridge, Polycom, CGI, NWS (a high-tech weather service company), Wachovia Securities and Putnam Investments with nearly 900 employees. Also located in the River Road industrial district are such firms as Microsoft, Verizon, the Massachusetts School of Law, the Vicor Company, Boston Technology, MKS Instruments and the Marriott Corporation.

The River Road corridor is presently home to several hotels, Courtyard Marriott, Residence Inn, Springhill Suites, Staybridge Suites, Wyndham, Homewood Suites and LaQuinta hotel.

In the spring of 2012, the Town of Andover successfully approved via Town Meeting the Town's first Tax Increment Financing (TIF) for Schneider Electric. Schneider Electric (SE) will relocate and consolidate several area operations into a redeveloped and expanded facility at 800 Federal Street (247,000 sf). As a result of a successful Tax Increment

Financing Article back in 2012, Schneider Electric is now open for business off Federal Street (Sept 2014) and has designated Andover as their North America headquarters. Their Boston One campus encompasses 247,000 sf, 710 employees and can accommodate up to 800 employees at built out.

The Dascomb Road/Lowell Street industrial area, also adjacent to I-93 is home to the large Raytheon Company facility with more than 1,000,000 square feet of space and is in an expanding business environment. Along with Raytheon, are Hewlett-Packard (447,500 square feet), the Internal Revenue Northeast Service Center, California Products (174,665 square feet), and the Brockway Smith Company (42,000 square feet). Other businesses such as Cambridge Isotopes Mayo Clinic and The Professional Center for Child Development also reside within the Dascomb Road/Lowell Street industrial area. The corporate headquarters of the Vicor Company is located on Frontage Road, with manufacturing operations being conducted at its Federal Street facility.

This past December of 2014, the Planning Board approved the construction of a 30,000 SF addition to the existing 30,000 medical building at 321 Lowell Street. Following completion, the new addition will be occupied by Dana Faber Cancer Institute.

As a result of nearly a half million dollars of private investment 23 Frontage Road is now home to Morpho Detection. The 64,000 sf facility at 23 Frontage Road had been vacant for nearly 10 years.

In May of 2013, Town Meeting voters approved a zoning change for portions of River Road and Dascomb Road, an area comprising 540 acres. A very common observation in Andover is that the residents and workers in the West Andover and the Dascomb Road area have limited access to obtain the typical services that homeowners, business people and employees readily enjoy in other parts of Andover. Taking Smart Growth seriously, the proposed Industrial 2 rezoning would encourage and authorize service-focused development along portions of River Road and Dascomb Road. By rezoning these two strategically targeted areas, the district would allow for currently non-existent conveniences and services to be provided to the underserved residents, business community, and commuters by allowing an appropriately scaled and designed mix of services. Consistent with Smart Growth practices, adoption of the ID2 Zoning District would allow Andover residents, workers and commuters to reduce their travel time between needed amenities, and home and work, while positioning Andover to remain economically competitive within the region.

In response to the Town's forward planning and approval of the ID2 Zoning, the Town has welcomed the opening of the Restaurant Depot at 146 Dascomb Road this past fall. The project comprises 86,600 square feet of existing warehouse space that has been vacant for nearly ten years. With the new zoning in place the Town has set the table for complimentary land uses to move forward in these targeted economic development areas.

More recently in May of 2015, an application has been submitted by the Lupoli Companies for consideration of development of a 715,800 sf of mixed use office/retail at 146 Dascomb Road. This project presents a unique opportunity to reposition an outdated warehousing facility and provide for a service enriched development for area residents and businesses.

In an attempt to address the immediate need for Senior Housing the Town has taken proactive steps in providing for housing for its aging population. At the 2013 Annual Town Meeting, voters approved the 113 acre Senior Residential Community Overlay District off River Road, at the former the Franciscan Center. Today, the Town of Andover, with 26% of its population over 55, faces a long-term shortage of senior housing. The approval of this overlay district will help Andover address both the need for more housing designed for the Town's retirees. As a result of the proactive planning process, the Town is currently facilitating the permitting of a 200 unit independent living residence as proposed by Pulte Homes, with construction anticipated to commence in the spring of 2016.

With the demographics of Andover aging faster than most communities in the Commonwealth, the Town has also received two additional senior housing applications. The Bridges at Andover and Andover Senior Residence located at 254 Lowell Street is proposing to develop 133 unit congregate care facility, with 57% of the project being affordable. The second project located at 139 Elm Street as proposed by CSH LLC of Andover is seeking approval for construction of 96 units of assisted living. Both projects are currently in the permitting process.

In the Lowell Junction industrial district along I-93, Pfizer continues to retrofit its physical plant, and presently operates out of more nearly 900,000 square feet of built space on its biopharmaceutical research and manufacturing campus. Alaska Diesel occupies a 43,000 square foot facility on Connector Road. The Proctor and Gamble Company (formerly the Gillette Company) currently occupies 592,000 square feet of space in the district, with Standard Duplicating, Granite City Electric, Bodycote, Reid Graphics also occupying space in the Lowell Junction area.

In the fall of 2014 Merrimack College successfully permitted four new residences buildings and a new Student Commons building. Upon completion, the new residence will accommodate 351 student beds, with a new café, fitness center, student activity space, function room and offices being included as part of the Student Commons building.

In 2014 Phillips Academy completed construction of a new 16,800 sf building to accommodate the school's need for counseling space, examination rooms and health offices. This Wellness Center will be known as the Rebecca Sykes Wellness Center.

Although in a holding pattern awaiting funding from the Federal Highway Administration and the Commonwealth, the Towns of Andover, Tewksbury and Wilmington are committed to seeing the unified development plan become a reality. The anticipated creation of a new interchange on I-93 near the Pfizer and Procter & Gamble (formerly Gillette) facilities will make more than 395 acres of land accessible for industrial expansion with the potential of bringing on line approximately 2 million square feet of new hi-tech office/industrial space. In total, the development area has a potential to yield approximately 4 million square feet of new office/industrial/commercial space (2 million square feet in Andover) with direct access off Route 93, with estimates that this in-fill development could support as many as 11,500 new jobs if fully developed.

The ultimate goal of the form-based building code is to help facilitate more efficient land utilization, provide opportunities for increased tax revenues and increased economic development, while helping mitigate traffic congestion through abutting residential neighborhoods.

Brickstone Square, which is a large 1,000,000 square foot former mill complex in the Shawsheen area adjacent to I-495 continues to thrive. The Brickstone complex is home to more than 54 different firms, including health providers such as Genesis Health Care Corporation, Kindred Health Care, Medical Health Care Solutions and Well Point, and financial firms such as Merrill Lynch, Northern Capital Advisors Corporation, Preferred Financial Services, and RBC Dain Rauscher, as well as computer and electronics firms such as Northrop Grumman, Specialty Filaments, Broadcom, Pan Communications and Agere Systems. Other firms include Mitsubishi International, the Northeast Document Conservation Center, Andover Controls, Basilea, Regus, Aras, Sofft Shoe and over the past year many new companies have relocated to Brickstone Square, such companies include Standard Capital, Constitutional Capital, Helium, Caristone, ORA, Capsule Tech, Volcano, Genalytics and Acquia.

Existing commercial and retail activities in downtown Andover increased in 2014. During the year the Town welcomed several new retail stores and restaurants. This past year, the downtown has welcomed Tobey Gray and expansion of Orange Leaf frozen yogurt

Renovations/construction within the Shawsheen Plaza have continued throughout the past year, with Karma restaurant and Sherwin Williams Paint now open for business.

The 90,000 sf expansion of the existing YMCA is well on its way, with grand re-opening scheduled for the fall of 2015

In collaboration with the Andover Green Advisory Board, the Town more than doubled Andover's residential solar capacity via the Solarize Andover campaign. In 2014, efforts from the program yielded 88+ rooftop solar systems, with 720+kW installed. <http://www.solarizeandover.com/>

This past winter, construction has commenced on the Apartments at Rolling Green off Lowell Street, which will allow for a new 224 unit 40B residential rental apartment development.

In May of 2015, Town Meeting voters approved the Andover Historic Mill District. This zoning overlay district is intended to promote the redevelopment of a large area of approximately 100 acres between Main Street, Dundee Park, the Shawsheen River and Whole Foods Grocery Store. This new district will help facilitate a tightly controlled process that is in keeping with the character of the central business district, while providing opportunities for new retail, office and housing, expand existing tax base, bolster property values, while expanding the downtown to the regional transit station.

Over the past years, residential and commercial activity in Andover has remained strong, with the following projects being permitted by the Planning Board:

Recently permitted:

- Arbor Lane 3-lot subdivision – permitted
- 39-47 High Plain Road 3-lot subdivision – permitted

- Weeping Willow 9-lots subdivision – permitted
- 60-62 Essex Street Planned Development - permitted
- 276 North Main Street construction of a 9,524 s.f. barn to be used as office space and storage – permitted – under construction
- 15 Stevens Street Atria Senior Living – addition – permitted - constructed
- Bancroft School - construction of a 106,486 sf school for grades K-5 – permitted –constructed
- 429 South Main Street a new 4,549 s.f. retail/restaurant/office building – permitted - under construction
- 321-325 Lowell Street - new medical building – permitted –constructed
- 600-800 Federal Street - addition – permitted –constructed
- 26 Central Street St. Augustine's School construction of a 6,915 s.f. gymnasium – permitted – under construction
- 89-93 Main Street – Planned Development – permitted – under construction
- 15 Salem Street – Phillips Academy construction of a 16,800 s.f. addition to wellness center – permitted – under construction
- 200 Andover Street – 1,962 s.f. addition to karate studio – permitted – constructed
- 165 Haverhill Street – YMCA - 100,938 sf addition – permitted – under construction
- 15 Stevens Street Atria Senior Living – 14,425 s.f. buildout– permitted – under construction
- 50 Frontage Road – interior 3,154 s.f. buildout – permitted – under construction
- Merrimack College – 4 residences and a community building 100,560 g.s.f.- permitted
- 327-329 Lowell Street – new medical building - permitted
- 58 Lowell Junction Road – 1,680 s.f. of office space – permitted
- 55 Harold Parker Road – fabric riding structure and four horse sheds 11,766 g.s.f. - permitted

Presently under construction:

- Manning Way 5-lots Definitive subdivision-under construction
- Black Horse Lane 8-lots Definitive subdivision-under construction
- Seller Farm Estates 3-lots Definitive subdivision- permitted
- Shandel Circle 8-lots Definitive subdivision-under construction
- Newport Circle 6-lots Definitive subdivision -under construction
- Pine Forest Park 11- lots Definitive Subdivision – under construction
- 340 Salem Street – 2-lots Definitive subdivision – permitted
- The Legends Phase I – 24 condominium units under construction
- The Legends Phase II – 27 condominium units under construction
- Swan Crossing I, II and III – 56 condominium units under construction
- Lincoln Woods – 21 condominium units under construction
- Katsikis Estates 2-lot subdivision – under construction
- Trinity Court 4-lot Definitive subdivision – under construction
- Krafton Way 2 Lot Definitive subdivision – under construction
- Jillian Way 6-lot Definitive subdivision– under construction
- Fraser Drive 4-lot Definitive subdivision – under construction

Labor Force, Employment and Unemployment Rates

According to the Massachusetts Division of Employment and Training, in March 2015, the Town had a total labor force of 17,586 of which 16,953 were employed and 633 or 3.6% were unemployed, as compared with 4.8% for the Commonwealth (unadjusted).

The following table sets forth the Town's average labor force and unemployment rates, as well as the unemployment rates for the Commonwealth and the United States, for the last five calendar years.

UNEMPLOYMENT RATES

Year	Town of Andover			Massachusetts		United States	
	Labor Force	Unemployment Rate		Unemployment		Unemployment Rate	
2014	17,302	4.4	%	5.8	%	5.8	%
2013	17,039	5.3		7.1		7.4	
2012	16,018	4.9		6.7		7.8	
2011	16,691	5.7		6.8		8.9	
2010	16,838	7.1		8.5		9.6	

SOURCE: U.S. Bureau of Labor Statistics and Massachusetts Department of Revenue, Division of Local Services. Monthly data are unadjusted.

Building Permits

The table below sets forth the number of building permits issued and the estimated dollar value of new construction and alterations for the following calendar years. The estimated dollar values are builders' estimates, which are generally considered to be conservative. The table reflects permits filed and estimated valuations (in thousands) for both private construction and Town projects.

Calendar Year	New Construction				Other (1)		Totals	
	Residential		Non-Residential		No.	Value	No.	Value
	No.	Value	No.	Value				
2015 (2)	5	\$ 1,939	-	\$ -	199	\$ 6,471	204	\$ 8,410
2014	34	50,115	4	14,032	1,841	106,042	1,879	170,189
2013	51	17,704	2	7,705	1,235	70,269	1,288	95,678
2012	46	28,871	3	35,929	1,316	61,144	1,260	125,944
2011	37	14,474	-	-	1,116	52,593	1,153	67,067
2010	23	11,524	2	2,877	1,232	52,724	1,257	67,125

(1) Additions and alterations to all types of buildings (including residential), as well as permits for pools, demolitions, signs, and others.

(2) As of February 28, 2015.

Transportation and Utilities

The principal highways serving the Town include Interstate Route 495, which connects to Interstate 95 and Interstate Route 93. Transportation is available to Andover residents aged sixty and older or handicapped via the Merrimac Valley Regional Transit Authority (MVRTA) to the neighboring communities of Lawrence, North Andover and Methuen. Established trucking firms provide competitive service locally and to long distance points. Commuter rail service to Boston is provided by the Massachusetts Bay Transit Authority (MBTA). Logan International Airport in Boston is about 25 miles south of Andover and Lawrence Municipal Airport in North Andover has two paved runways (5,000 and 3,100 feet long, respectively).

Gas and electric services are provided by established private utilities.

Population, Income and Wealth Levels

The following table shows the median age, median family income and per capita income according to the Federal Census.

	<u>Andover</u>	<u>Massachusetts</u>	<u>United States</u>
Median Age:			
2010	42.1	39.1	37.2
2000	39.5	36.5	35.3
1990	36.4	33.6	32.9
Median Family Income:			
2010	\$ 139,043	\$ 81,165	\$ 51,144
2000	104,820	61,664	50,046
1990	70,757	44,367	35,225
Per Capita Income:			
2010	\$ 51,194	\$ 33,966	\$ 27,334
2000	41,133	25,952	21,587
1990	26,327	17,224	14,420

SOURCE: U.S. Bureau of the Census.

POPULATION TRENDS

<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>
33,201	31,247	29,151	26,370

SOURCE: U.S. Bureau of the Census.

PROPERTY TAXATION

Tax Levy Computation

The principal revenue source of the Town is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "Tax Limitations" below. The estimated receipts for a fiscal year from other sources may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deduction for appropriations voted from available funds for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see "Abatements and Overlay" below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see "Taxation to Meet Deficits" below).

The table below illustrates the manner in which the tax levy was determined for the following fiscal years.

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
Total Appropriations(1)	\$ 136,128,816	\$ 140,905,913	\$ 143,073,064	\$ 153,677,362	\$ 162,470,869
Additions:					
State and County Assessments	2,926,555	2,426,090	2,482,440	2,809,351	701,675
Overlay Reserve	772,521	980,114	985,564	981,735	1,159,706
Other Additions	65,280	97,712	205,334	111,070	77,836
Total Additions	3,764,356	3,503,916	3,673,338	3,902,156	1,939,217
Gross Amount to be Raised	139,893,172	144,409,829	146,746,402	157,579,517	164,410,086
Deductions:					
Local Estimated Receipts	23,254,528	23,406,748	23,353,649	23,975,630	25,168,544
State Aid:(2)					
Current Year	10,370,852	10,265,154	11,400,546	11,977,456	12,617,767
Available Funds:(3)					
Free Cash	1,123,500	992,000	-	3,180,965	3,300,000
Other	485,992	871,771	98,694	939,035	1,090,012
Total Deductions	35,234,872	35,535,673	34,852,889	40,073,086	42,176,323
Net Amount to be Raised (Tax Levy)	\$ 104,658,300	\$ 108,874,156	\$ 111,893,513	\$ 117,506,432	\$ 122,233,763

- (1) Includes annual appropriations from taxation voted subsequent to adoption of the annual budget but prior to setting the tax rate.
- (2) Estimated by the State Department of Revenue and required by law to be used in setting of the tax rate. Actual state aid payments may vary upward or downward from said estimates, and the State may withhold payments pending receipt of State and County assessments.
- (3) Transfers from available funds, including "Free Cash" (see "Free Cash"), generally made as an offset to a particular appropriation item.

Assessed Valuations and Tax Levies

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years, or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land (which is to be valued at not exceeding \$10 per acre), agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property.

Classification came in part in response to a general recognition that, under the prior system of valuation, there were substantial discrepancies in fact between fair cash values and assessed valuations within municipalities and relative discrepancies as between municipalities. The table below sets forth the trend in the Town's assessed valuations, tax rates, tax levies, and tax levies per capita for the following fiscal years.

Assessed Valuations and Tax Rates

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Total Assessed Valuation	Tax Rate Per \$1,000 Valuation		Tax Levy	Tax Levy Per Capita(1)
				Residential	All Other		
2015	\$ 6,983,397,936	\$ 246,548,798	\$ 7,229,946,734	\$ 14.97	\$ 24.77	\$ 122,233,763	\$ 3,682
2014	6,603,408,999	237,117,137	6,840,526,136	15.18	25.25	117,506,432	3,539
2013	6,568,379,699	234,340,227	6,802,719,926	14.51	24.26	111,893,513	3,370
2012 (2)	6,575,020,299	223,484,947	6,798,505,246	14.15	23.54	108,874,156	3,279
2011	6,415,226,755	201,324,807	6,616,551,562	14.12	22.46	104,658,300	3,152

(1) Based on 2010 U.S. Bureau of the Census figure.

(2) Revaluation year.

Property Classification

The table below shows the breakdown of the Town's assessed valuation for the following fiscal years by class.

Property Type	2013		2014		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential	\$ 5,441,912,945	80.0 %	\$ 5,474,892,385	80.0 %	\$ 5,793,267,930	80.1 %
Commercial	544,010,554	8.0	541,616,314	7.9	580,548,306	8.0
Industrial	574,064,300	8.4	578,490,500	8.5	601,623,300	8.3
Open Space	8,391,900	0.1	8,409,800	0.1	7,958,400	0.1
Personal	234,340,227	3.4	237,117,137	3.5	246,548,798	3.4
	<u>\$ 6,802,719,926</u>	<u>100.0 %</u>	<u>\$ 6,840,526,136</u>	<u>100.0 %</u>	<u>\$ 7,229,946,734</u>	<u>100.0 %</u>

Largest Taxpayers

The following is a list of the ten largest taxpayers in the Town based upon taxes assessed for fiscal 2015. All of the taxpayers listed below are current in their tax payments.

Name	Property Type	Total Taxable Real and Personal	Total Tax Assessed	Percent of Total Levy
Pfizer	Industrial	\$83,549,000	\$2,069,509	1.69 %
New Brickstone Office LLC	Commercial	74,492,800	1,845,187	1.51
Raytheon Co. & Endrock Associates	Industrial/Residential	61,601,150	1,525,860	1.25
Eisai Research Institute	Commercial/Ind.	59,453,940	1,472,674	1.20
Philips Electro No Amer Corp. (Agilent)	Industrial	51,654,100	1,279,472	1.05
Navisite Inc.	Commercial/Ind.	45,337,430	1,123,008	0.92
RREEF America REIT III Corp. ZI	Commercial/Ind.	41,450,000	1,026,717	0.84
One Hundred Minuteman LLC	Industrial	40,574,700	1,005,035	0.82
Proctor + Gamble (Gillette)	Industrial	37,012,200	916,792	0.75
Mass Electric Co	Industrial/Utility	34,821,940	862,539	0.71
Total		<u>\$529,947,260</u>	<u>\$13,126,794</u>	<u>10.74 %</u>

State Equalized Valuation and Estimated Full Value Tax Rate

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value". The following table sets forth the trend in equalized valuations of the Town of Andover.

January 1,	State Equalized Valuation	% Change
2014	\$ 7,120,772,800	(2.36) %
2012	7,292,906,600	(1.52)
2010	7,405,664,700	(4.53)
2008	7,757,246,999	5.49
2006	7,353,584,000	12.68
2004	6,525,840,900	16.75
2002	5,589,664,700	30.95

Abatements and Overlay

The Town is authorized by law to increase each tax levy by an amount approved as reasonable by the Commissioner of Revenue for an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay reserve, the resultant "overlay deficit" is required to be added to the next tax levy. Any balance in the overlay account, in excess of the amount of the warrant remaining to be collected or abated, is transferred to a reserve fund to be used for extraordinary or unforeseen expenses. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue.

Overlay Reserve and Abatements and Exemptions

The table below sets forth the amount of the overlay reserve for the last five fiscal years, and actual abatements and exemptions granted through June 30, 2014, against the respective fiscal year's levy.

Fiscal Year	Net Tax Levy (1)	Overlay Reserve		Abatements Granted Through June 30, 2014
		Dollar Amount	As a % of Net Levy	
2014	\$ 116,524,698	\$ 981,734	0.84 %	\$ 451,376
2013	110,907,949	985,564	0.89	466,217
2012	107,894,042	980,114	0.91	531,148
2011	103,885,779	772,521	0.74	704,478
2010	100,467,310	822,806	0.82	775,226

(1) Tax levy prior to addition of overlay reserve.

Tax Collections

The Town has instituted quarterly tax billings, with tax bills payable August 1, November 1, February 1, and May 1 of each fiscal year. Interest accrues on delinquent taxes at the rate of 14 percent per annum. Under recent legislation, cities and towns are authorized to establish a municipal tax amnesty program through June 30, 2004 permitting the payment of delinquent property taxes without interest or with reduced interest during the period of the program. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The table below compares the Town's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

Fiscal Year	Gross Tax Levy	Overlay Reserve for Abatements	Net Tax Levy	Collections During Fiscal Year Payable(1)	
				Dollar Amount	% of Net Levy
2014	\$ 117,506,432	\$ 981,735	\$ 116,524,697	\$ 115,439,167	99.07 %
2013	111,893,513	985,564	110,907,949	109,842,281	99.04
2012	108,874,156	980,114	107,894,042	107,067,732	99.23
2011	104,658,300	772,521	103,885,779	102,625,682	98.79
2010	101,290,116	822,806	100,467,310	99,241,767	98.78

(1) Actual dollar collections net of refunds. Does not include abatements proceeds of tax titles or tax possessions attributable to each levy or other non-cash credits.

Tax Titles and Possessions

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes thereon. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the land court.

Upon such foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of like any land held for municipal purposes. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles (either by purchase at the public sale or by taking), at which time the tax is written off in full by reserving the amount of tax and charging surplus.

The following table sets forth the amount of tax titles and possessions as of the end of each of the following fiscal years.

Fiscal Year	Total Tax Titles and Possessions
2014	\$ 1,315,129
2013	1,634,203
2012	1,302,120
2011	1,334,698
2010	1,237,434

Taxation to Meet Deficits

As noted elsewhere (see “*Abatements and Overlay*” above) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as “free cash” deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations

Chapter 59, Section 21C of the General Laws, also known as Proposition 2 ½, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year’s valuation.

This “growth” limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the “growth” limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit “to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year”.

Proposition 2 ½ further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the city or town's apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option". Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

The Town of Andover has been in full compliance with Proposition 2 1/2 since its inception. Under the law as now written, the current and future levies may increase by up to 2 1/2% of the maximum levy limit for the previous fiscal year, plus by any amounts voted for override and debt exclusion, or "new" valuations or "real" valuation increases of 50% or more.

On May 17, 1994, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$38,500,000 bonds authorized for the construction and reconstruction of the high school and two elementary schools and \$2,000,000 for the installation of a technology system.

On May 23, 2000, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$34,455,000 bonds authorized for the construction of a new middle school and a new elementary school and from \$12,900,000 bonds authorized for the construction and reconstruction of the Public Safety Complex.

On January 25, 2011, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$43,835,000 bonds authorized for the construction of the Bancroft Elementary School and \$825,000 for the feasibility study of such school. In addition, \$4,235,538 of the \$5,715,000 additional Bancroft School bonds authorized on February 11, 2013 have been approved for issuance as exempt from Proposition 2 ½.

The following table presents the Town's primary levy limits, its maximum levy limits, and its actual tax levies for the following fiscal years.

Tax Levies and Tax Levy Limits (1)

	Fiscal Year				
	2015	2014	2013	2012	2011
Primary Levy Limit (2)	\$ 180,748,668	\$ 171,013,153	\$ 170,067,998	\$ 169,962,631	\$ 165,413,789
Prior Fiscal Year Levy Limit	114,580,485	110,260,239	106,128,017	101,868,863	98,313,488
2.5% Levy Growth	2,864,512	2,756,506	2,653,200	2,546,722	2,457,837
New Growth (3)	2,352,143	1,563,740	1,479,022	1,712,432	1,097,538
Overrides	-	-	-	-	-
Growth Levy Limit	119,797,140	114,580,485	110,260,239	106,128,017	101,868,863
Debt Exclusions	4,438,406	3,278,578	2,349,085	2,947,458	2,860,362
Capital Expenditure Exclusions	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Tax Levy Limit	124,235,546	117,859,063	112,609,324	109,075,475	104,729,225
Tax Levy	122,233,763	117,506,432	111,893,513	108,874,156	104,658,300
Unused Levy Capacity (4)	2,001,783	352,631	715,811	201,319	70,925
Unused Primary Levy Capacity (5)	\$ 60,951,528	\$ 56,432,668	\$ 59,807,759	\$ 63,834,614	\$ 63,544,926

(1) Source: Massachusetts Department of Revenue.

(2) 2.5% of assessed valuation.

(3) Allowed increase for new valuations (or required reduction) - certified by the Department of Revenue.

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit less Growth Levy Limit.

Sale of Tax Receivables

Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Pledged Taxes

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. The Town has not created any such districts.

Community Preservation Act

The Massachusetts Community Preservation Act (the "CPA") permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy, dedicate revenue (other than state or federal funds), and to receive state matching funds for (i) the acquisition, creation, preservation, rehabilitation and restoration of land for recreational use, open space, and affordable housing and (ii) the acquisition, preservation, rehabilitation and restoration of historic resources. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% (but not less than 1% under certain circumstances) and may make an additional commitment of funds by dedicating revenue other than state or federal funds, provided that the total funds collected do not exceed 3% of the real property tax levy, less any exemptions adopted (such as an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property or \$100,000 of the value of each taxable parcel of class three, commercial property, and class four, industrial property as defined in Chapter 59, Section 2A of the General Laws, and an exemption for commercial and industrial properties in cities and towns with classified tax rates). In the event that the municipality shall no longer dedicate all or part of the additional funds to community preservation, the surcharge on the real property tax levy of not less than 1% shall remain in effect, provided that any such change must be approved pursuant to the same process as acceptance of the CPA. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see "Tax Limitations" under "PROPERTY TAXATION" above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, including reducing the surcharge to 1% and committing additional municipal funds as outlined above, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge and dedication of revenue. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns

that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula and the total state distribution made to any city or town may not exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on taxes, the dedication of revenue and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge and dedicated revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

In April 2007, Town Meeting voted to include a ballot question on the March 2008 town election warrant to see if the voters would accept the Act and approve a one percent surcharge. The vote did not pass.

TOWN FINANCES

Budget and Appropriation Process

Town Meeting: The annual appropriations of the Town are ordinarily made at the annual meeting which usually takes place in April. Appropriations may also be voted at special meetings. The Town has a finance committee, which submits reports and recommendations on proposed expenditures at Town Meetings. School committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the amount appropriated by the Town Meeting.

Mandatory Items: Mandatory items, such as state and county assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the appropriations voted at town meeting.

Enterprises: The Town's water and sewer services are operated as enterprises, under Chapter 44 Section 53F1/2 of the General Laws. The budgets for the Water and Sewer Departments are voted on as separate items at each Annual Town Meeting. Any operating surpluses generated by the Departments are retained at the end of each fiscal year within the respective Departments. The Water and Sewer rates are set by the Board of Selectmen. The Town initiated the water and sewer enterprise funds in fiscal 1996.

Revenues: Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "PROPERTY TAXATION-Tax Levy Computation".)

Operating Budget Trends

The following table sets forth the operating budgets for fiscal years 2012 through 2016 as voted by the Annual Town Meetings. Said budgets exclude Mandatory Items (see above) and expenditures for "non-operating" or extraordinary items authorized under "special" warrant articles at special town meetings.

	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
General Government	\$ 8,572,150	\$ 8,523,509	\$ 9,138,645	\$ 9,201,307	\$ 9,433,657
Facility Maintenance (1)	5,498,500	6,490,514	6,822,481	6,154,524 ⁽⁵⁾	6,359,219
Public Safety	14,762,088	14,549,741	15,461,780	15,537,890	15,605,345
Public Works	11,718,194	11,827,538	12,116,847	13,730,834 ⁽⁵⁾	14,153,415
Library Services	2,427,022	2,432,589	2,522,582	2,629,517	2,681,342
Education(2)	63,229,080	66,320,015	69,241,837	71,433,294	73,806,591
Debt Service	12,112,692	11,585,101	13,035,323	14,998,238	15,443,134
Retirement	5,085,067	5,496,244	5,939,944	6,412,116	7,946,015
Unclassified (3)	15,116,613	14,852,113	15,205,653	17,105,645	18,442,969
Compensation Fund (4)	280,000	500,000	-	550,000	950,000
Reserve Fund	200,000	200,000	200,000	200,000	200,000
Total Expenditures	<u>\$ 139,001,406</u>	<u>\$ 142,777,364</u>	<u>\$ 149,685,092</u>	<u>\$ 157,953,365</u>	<u>\$ 165,021,687</u>

(1) Includes \$2,450,000 in additional funds to the capital project fund.

(2) Includes Greater Lawrence Technical School and Essex North Shore Agricultural & Technical School District assessments.

(3) Includes health insurance.

(4) Reserve for Town (non-school) union and non-union salary adjustments.

(5) In fiscal year 2015 expense associated with forestry, Spring Grove Cemetery, parks and grounds were transferred from Facility Maintenance to Public Works.

Revenues

Property Taxes: Property taxes are a major source of revenue for the Town. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "PROPERTY TAXATION--Tax Limitations", above. There is litigation in the Commonwealth claiming that the system of financing public education, with its heavy reliance on the property tax, is unconstitutional because it is based on the wealth of the municipality in which the student lives.

State Aid: The Town's state aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid but actual payments may vary from the estimate. The Town received \$10,984,162 in fiscal 2010, \$10,370,852 in fiscal 2011, \$10,330,506 in fiscal 2012, \$11,296,315 in fiscal 2013, and \$11,955,275 in fiscal 2014.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a uniform rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 percent per annum. Provision is also made for the non-renewal of registration and operating licenses by the registrar of motor vehicles. Motor vehicle excise tax receipts totaled \$4,519,905 in fiscal 2009, \$4,472,856 in fiscal 2010, \$4,531,283 in fiscal 2011, \$4,471,695 in fiscal 2012, \$4,475,068 in fiscal 2013, and \$5,081,191 in fiscal 2014.

Water Rates and Services: It is the policy of the Town that the water utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital cost, operating expense, treatment expense and debt service. To reinforce this policy the Town established an enterprise fund for the water system effective July 1, 1995. Water revenues were \$6,741,635 in fiscal 2012 while total water expenses including debt service, insurance and pensions were \$6,065,570. Water revenues were \$7,175,798 in fiscal 2013 while total water expenses including debt service, insurance and pensions were \$6,491,333. Water revenues were \$7,753,499 in fiscal 2014 while total water expenses including debt service, insurance and pensions were \$6,921,980. The water rate was increased effective July 1, 2014 from \$2.95 per 100 cubic feet to \$3.10 per 100 cubic feet. (See Appendix A for additional information.)

Sewer Rates and Services: It also is the policy that the sewer utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital costs, operating expenses, debt service and wastewater treatment expense. To reinforce this policy the Town established an enterprise fund for the sewer system effective July 1, 1996. Sewer revenues totaled \$5,350,617 in fiscal 2012, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,149,916. Sewer revenues totaled \$5,579,700 in fiscal 2013, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,327,224. Sewer revenues totaled \$5,449,623 in fiscal 2014, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,315,691. Sewer rates are currently \$3.47 per 100 cubic feet of water used as of July 1, 2013. (See Appendix A for additional information.)

Room Occupancy Tax: Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed six percent (6%) (The rate was increased by 2% effective October 01, 2009 by Town Meeting action on August 31), of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located in quarterly distributions. The Town has levied the full 6% as permitted under the law. The Town received distributions from this tax in fiscal 2012 in the amount of \$1,353,137 and in fiscal 2013 in the amount of \$1,526,835. In fiscal 2014, the Town received distributions from this tax in the amount of \$1,496,945.

Other: Other major sources of revenue included departmental fees, fines, charges and investment income of \$6,259,658 in fiscal 2012, \$6,733,852 in fiscal 2013, and \$7,259,490 in fiscal 2014.

State Distributions

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute, repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities were allowed to defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities that chose to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule. The Town did not utilize this provision.

State School Building Assistance Program

Under its school building assistance program, The Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects either in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs in most cases.

The Authority began accepting new applications for new projects on July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. The Authority recently promulgated new regulations with respect to the application and approval process for new projects. The Authority expects to pay

grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Investment of Town Funds

All funds of the Town, except for trust funds and funds of the Andover Retirement System, are invested in accordance with Section 55 of Chapter 44 of the Massachusetts General Laws (MGL). This section permits investment of available funds and bond and note proceeds, in term deposits and Certificates of Deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government and an agency thereof with a maturity of one year or less, in repurchase agreements secured by federal or federal agency securities with a maturity of 90 days or less, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole Trustee, and the fund is managed under contract by Fidelity Management Company, of Boston under supervision of the State Treasurer's office. According to the State Treasurer the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44 of the MGL, which permits a broader range of investments than Section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to Town and town retirement systems.

Breakdown of the above investments may be obtained from the Town Treasurer. Pension funds are under the jurisdiction of the Andover Contributory Retirement System. Investments from the retirement system are discussed in Appendix A.

Audits

The Town's accounts were most recently audited for the fiscal year ended June 30, 2014 by Powers & Sullivan, Certified Public Accountants, a copy of which is attached hereto as Appendix A. Previous audits have been performed by Powers and Sullivan for fiscal years since 1996, copies of which are available upon request at the office of the Town Accountant.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Financial Statements

Set forth on the following pages for the Town of Andover are Governmental Funds Balance Sheets for fiscal years 2014, 2013 and 2012, Statements of Revenues, Expenditures and Changes in Fund Balances for fiscal years 2014, 2013 and 2012, and a comparative statement of revenues, expenditures and changes in fund balances for fiscal years 2011 and 2010. Said financials were extracted from the Town's audited financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014 (1)

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 16,931,704	\$ -	\$ 4,751,738	\$ 18,987,697	\$ 40,671,139
Investments.....	9,119,572	-	-	2,314,687	11,434,259
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	2,012,309	-	-	-	2,012,309
Real estate tax deferrals.....	203,024	-	-	-	203,024
Tax liens.....	1,315,129	-	-	-	1,315,129
Motor vehicle and other excise taxes.....	624,646	-	-	-	624,646
Departmental and other.....	335,946	-	-	142,764	478,710
Intergovernmental.....	4,116,137	3,420,651	3,606,361	433,481	11,576,630
Tax foreclosures.....	225,826	-	-	-	225,826
TOTAL ASSETS.....	\$ 34,884,293	\$ 3,420,651	\$ 8,358,099	\$ 21,878,629	\$ 68,541,672
LIABILITIES					
Warrants payable.....	\$ 1,153,523	\$ -	\$ 1,401,130	\$ 872,226	\$ 3,426,879
Accrued payroll.....	5,152,656	-	3,841	259,692	5,416,189
Tax refunds payable.....	1,324,000	-	-	-	1,324,000
TOTAL LIABILITIES.....	7,630,179	-	1,404,971	1,131,918	10,167,068
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues.....	8,267,894	3,420,651	3,606,361	138,899	15,433,805
FUND BALANCES					
Nonspendable.....	-	-	-	1,261,738	1,261,738
Restricted.....	978,024	-	3,346,767	19,346,074	23,670,865
Committed.....	2,354,757	-	-	-	2,354,757
Assigned.....	1,049,914	-	-	-	1,049,914
Unassigned.....	14,603,525	-	-	-	14,603,525
TOTAL FUND BALANCES.....	18,986,220	-	3,346,767	20,607,812	42,940,799
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 34,884,293	\$ 3,420,651	\$ 8,358,099	\$ 21,878,629	\$ 68,541,672

(1) Extracted from the audited financial statements of the Town.

TOWN OF ANDOVER, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET AS OF JUNE 30, 2013 (1)

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 13,378,930	\$ -	\$ 3,098,634	\$ 16,213,298	\$ 32,690,862
Investments	7,834,541	-	-	2,630,516	10,465,057
Receivables, Net of Uncollectibles:					
Real Estate and Personal Property Taxes	2,074,638	-	-	-	2,074,638
Real Estate and Tax deferrals	223,742	-	-	-	223,742
Tax Liens	1,634,203	-	-	-	1,634,203
Motor Vehicle and Other Excise Taxes	736,189	-	-	-	736,189
Departmental and Other	452,678	-	-	112,666	565,344
Intergovernmental	5,532,244	2,963,064	2,732,905	1,198,920	12,427,133
Due from other funds	3,795	-	-	-	3,795
Tax Foreclosures	250,160	-	-	-	250,160
TOTAL ASSETS	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Warrants Payable	\$ 1,075,116	\$ 341,074	\$ 2,129,912	\$ 272,147	\$ 3,818,249
Accrued Payroll	4,441,819	-	-	188,865	4,630,684
Tax Refunds Payable	952,000	-	-	-	952,000
Liabilities due depositors	27,503	-	-	-	27,503
Abandoned Property	14,460	-	-	-	14,460
Deferred Revenues	10,520,119	2,618,195	2,732,905	109,609	15,980,828
Due to other funds	-	3,795	-	-	3,795
TOTAL LIABILITIES	\$ 17,031,017	\$ 2,963,064	\$ 4,862,817	\$ 570,621	\$ 25,427,519
FUND BALANCES:					
Nonspendable	-	-	-	1,278,486	1,278,486
Restricted	1,092,228	-	968,722	18,306,293	20,367,243
Committed	100,734	-	-	-	100,734
Assigned	1,181,371	-	-	-	1,181,371
Unassigned	12,715,770	-	-	-	12,715,770
Total Fund Balances	15,090,103	-	968,722	19,584,779	35,643,604
Total Liabilities and Fund Balances	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123

(1) Extracted from the audited financial statements of the Town.

TOWN OF ANDOVER, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET AS OF JUNE 30, 2012 (1)

	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 12,650,662	\$ 918,986	\$ 12,214,462	\$ 25,784,110
Investments	4,745,458	-	2,687,999	7,433,457
Receivables, Net of Uncollectibles:				
Real Estate and Personal Property Taxes	1,864,330	-	-	1,864,330
Real Estate and Tax deferrals	190,263	-	-	190,263
Tax Liens	1,302,120	-	-	1,302,120
Motor Vehicle and Other Excise Taxes	577,336	-	-	577,336
Departmental and Other	408,757	-	100,759	509,516
Intergovernmental	6,896,730	316,062	3,034,738	10,247,530
Due from other funds	231,331	-	-	231,331
Tax Foreclosures	250,160	-	-	250,160
TOTAL ASSETS	\$ 29,117,147	\$ 1,235,048	\$ 18,037,958	\$ 48,390,153
LIABILITIES AND FUND BALANCES:				
LIABILITIES				
Warrants Payable	\$ 464,300	\$ 1,093,727	\$ 1,183,031	\$ 2,741,058
Accrued Payroll	3,493,604	-	17,305	3,510,909
Tax Refunds Payable	1,139,000	-	-	1,139,000
Liabilities due depositors	27,503	-	-	27,503
Abandoned Property	14,460	-	-	14,460
Deferred Revenues	10,994,666	316,062	2,011,614	13,322,342
Due to other funds	-	-	231,331	231,331
Notes Payable	-	2,000,000	-	2,000,000
TOTAL LIABILITIES	\$ 16,133,533	\$ 3,409,789	\$ 3,443,281	\$ 22,986,603
FUND BALANCES:				
Nonspendable	-	-	1,274,750	1,274,750
Restricted	-	-	13,319,927	13,319,927
Committed	13,999	-	-	13,999
Assigned	2,197,122	-	-	2,197,122
Unassigned	10,772,493	(2,174,741)	-	8,597,752
Total Fund Balances	12,983,614	(2,174,741)	14,594,677	25,403,550
Total Liabilities and Fund Balances	\$ 29,117,147	\$ 1,235,048	\$ 18,037,958	\$ 48,390,153

(1) Extracted from the audited financial statements of the Town.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2014

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 116,681,066	\$ -	\$ -	\$ -	\$ 116,681,066
Tax liens.....	471,310	-	-	-	471,310
Motor vehicle excise taxes.....	5,082,290	-	-	-	5,082,290
Hotel/motel tax.....	1,496,945	-	-	-	1,496,945
Meals tax.....	506,658	-	-	-	506,658
Charges for services.....	-	-	-	273,643	273,643
Penalties and interest on taxes.....	554,802	-	-	-	554,802
Fees.....	-	-	-	372,979	372,979
Licenses and permits.....	1,990,689	-	-	-	1,990,689
Intergovernmental.....	25,893,421	961,684	6,140,134	4,633,178	37,628,417
Departmental and other.....	3,116,122	-	-	7,587,799	10,703,921
Contributions.....	-	-	-	2,032,400	2,032,400
Investment income.....	138,777	-	-	63,324	202,101
TOTAL REVENUES.....	155,932,080	961,684	6,140,134	14,963,323	177,997,221
EXPENDITURES:					
Current:					
General government.....	6,947,001	-	143,830	746,149	7,836,980
Public safety.....	14,626,837	-	-	1,494,042	16,120,879
Education.....	69,553,110	-	-	8,792,801	78,345,911
Municipal services.....	10,320,170	961,684	-	218,031	11,499,885
Community services.....	1,741,941	-	-	1,151,542	2,893,483
Library.....	2,523,588	-	-	34,861	2,558,449
Pension benefits.....	18,982,968	-	-	-	18,982,968
Property and liability insurance.....	777,873	-	-	-	777,873
Employee benefits.....	15,600,000	-	-	-	15,600,000
State and county charges.....	2,817,601	-	-	-	2,817,601
Capital outlay.....	-	-	26,012,089	6,293,129	32,305,218
Debt service:					
Principal.....	6,744,500	-	-	-	6,744,500
Interest.....	2,296,280	-	-	-	2,296,280
TOTAL EXPENDITURES.....	152,931,869	961,684	26,155,919	18,730,555	198,780,027
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	3,000,211	-	(20,015,785)	(3,767,232)	(20,782,806)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds.....	-	-	20,967,000	3,275,000	24,242,000
Premium from issuance of bonds.....	773,354	-	1,426,830	-	2,200,184
Transfers in.....	2,882,552	-	-	3,614,000	6,496,552
Transfers out.....	(2,760,000)	-	-	(2,098,735)	(4,858,735)
TOTAL OTHER FINANCING SOURCES (USES)...	895,906	-	22,393,830	4,790,265	28,080,001
NET CHANGE IN FUND BALANCES.....	3,896,117	-	2,378,045	1,023,033	7,297,195
FUND BALANCES AT BEGINNING OF YEAR.....	15,090,103	-	968,722	19,584,779	35,643,604
FUND BALANCES AT END OF YEAR.....	\$ 18,986,220	\$ -	\$ 3,346,767	\$ 20,607,812	\$ 42,940,799

(1) Extracted from the audited financial statements of the Town.

**TOWN OF ANDOVER, MASSACHUSETTS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE AS OF JUNE 30, 2013 (1)**

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds	\$ 110,384,336	\$ -	\$ -	\$ -	\$ 110,384,336
Tax Liens	88,055	-	-	-	88,055
Motor vehicle excise taxes	4,745,068	-	-	-	4,745,068
Hotel/motel tax	1,526,835	-	-	-	1,526,835
Meals tax	547,235	-	-	-	547,235
Charges for services	-	-	-	126,718	126,718
Penalties and Interest on taxes	298,550	-	-	381,835	680,385
Fees	-	-	-	-	-
Licenses and Permits	2,334,522	-	-	-	2,334,522
Fines and forfeitures	-	-	-	1,100	1,100
Intergovernmental	24,894,505	846,651	5,273,236	5,424,640	36,439,032
Departmental and other	3,100,973	-	-	7,437,796	10,538,769
Contributions	-	-	-	499,627	499,627
Investment Income	40,893	-	-	11,506	52,399
TOTAL REVENUES	\$ 147,960,972	\$ 846,651	\$ 5,273,236	\$ 13,883,222	\$ 167,964,081
EXPENDITURES:					
Current:					
General Government	7,083,243	-	-	499,397	7,582,640
Public Safety	14,479,482	-	-	1,481,601	15,961,083
Education	66,434,651	-	-	8,908,034	75,342,685
Municipal Services	10,491,489	846,651	-	145,976	11,484,116
Community Services	1,614,833	-	-	1,358,140	2,972,973
Library	2,466,793	-	-	65,789	2,532,582
Pension Benefits	18,565,841	-	-	-	18,565,841
Property and liability insurance	717,613	-	-	-	717,613
Employee Benefits	14,211,500	-	-	-	14,211,500
State and County Charges	2,468,820	-	-	-	2,468,820
Capital outlay	-	-	16,478,073	5,526,883	22,004,956
Debt Service:	-	-	-	-	-
Principal	5,813,900	-	-	-	5,813,900
Interest	1,871,364	-	-	-	1,871,364
TOTAL EXPENDITURES	\$ 146,219,529	\$ 846,651	\$ 16,478,073	\$ 17,985,820	\$ 181,530,073
Excess (Deficit) of Revenues Over (Under) Expenditures	1,741,443	-	(11,204,837)	(4,102,598)	(13,565,992)
Other Financing Sources (Uses):					
Issuance of bonds and notes	-	-	14,000,000	6,555,000	20,555,000
Issuance of refunding bonds	3,423,300	-	-	-	3,423,300
Premium from issuance of bonds	1,657,247	-	-	-	1,657,247
Premium from issuance of refunding bonds	599,483	-	-	-	599,483
Payment to refunded bonds escrow agent	(3,957,244)	-	-	-	(3,957,244)
Transfers in	1,659,760	-	348,300	2,881,000	4,889,060
Transfers out	(3,017,500)	-	-	(343,300)	(3,360,800)
TOTAL OTHER FINANCING SOURCES (USES)	365,046	-	14,348,300	9,092,700	23,806,046
Net Change in Fund Balances	2,106,489	-	3,143,463	4,990,102	10,240,054
FUND BALANCES, BEGINNING OF YEAR	12,983,614	-	(2,174,741)	14,594,677	25,403,550
FUND BALANCES, AT END OF YEAR	\$ 15,090,103	\$ -	\$ 968,722	\$ 19,584,779	\$ 35,643,604

(1) Extracted from the audited financial statements of the Town.

TOWN OF ANDOVER, MASSACHUSETTS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE AS OF JUNE 30, 2012 (1)

	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds	\$ 107,820,244	\$ -	\$ -	\$ 107,820,244
Tax Liens	264,004	-	-	264,004
Motor vehicle excise taxes	4,471,696	-	-	4,471,696
Hotel/motel tax	1,353,137	-	-	1,353,137
Meals tax	517,177	-	-	517,177
Charges for services	-	-	146,950	146,950
Penalties and Interest on taxes	416,902	-	-	416,902
Fees	-	-	342,399	342,399
Licenses and Permits	1,536,310	-	-	1,536,310
Fines and forfeitures	-	-	1,100	1,100
Intergovernmental	23,611,256	1,556,234	8,482,473	33,649,963
Departmental and other	3,065,363	-	7,327,166	10,392,529
Contributions	-	-	906,799	906,799
Investment Income	207,604	-	98,497	306,101
TOTAL REVENUES	\$ 143,263,693	\$ 1,556,234	\$ 17,305,384	\$ 162,125,311
EXPENDITURES:				
Current:				
General Government	6,210,552	-	867,677	7,078,229
Plant and facilities	4,498,557	-	531,026	5,029,583
Public Safety	13,980,063	-	1,393,679	15,373,742
Education	62,937,482	-	8,264,293	71,201,775
Public Works	4,592,741	-	2,118,373	6,711,114
Community Services	1,636,528	-	1,237,911	2,874,439
Library	2,390,690	-	156,708	2,547,398
Pension Benefits	17,504,035	-	-	17,504,035
Property and liability insurance	827,013	-	-	827,013
Employee Benefits	15,134,416	-	-	15,134,416
State and County Charges	2,433,163	-	-	2,433,163
Capital outlay	-	4,816,575	2,913,308	7,729,883
Debt Service:	-	-	-	-
Principal	6,194,000	-	-	6,194,000
Interest	1,847,422	-	-	1,847,422
TOTAL EXPENDITURES	\$ 140,186,662	\$ 4,816,575	\$ 17,482,975	\$ 162,486,212
Excess (Deficit) of Revenues Over (Under) Expenditures	3,077,031	(3,260,341)	(177,591)	(360,901)
Other Financing Sources (Uses):				
Issuance of bonds and notes	-	1,342,000	4,024,000	5,366,000
Issuance of refunding bonds	4,564,700	-	-	4,564,700
Premium from issuance of bonds	239,602	-	-	239,602
Premium from issuance of refunding bonds	446,698	-	-	446,698
Payment to refunded bonds escrow agent	(4,986,695)	-	-	(4,986,695)
Transfers in	1,950,838	-	1,291,400	3,242,238
Transfers out	(1,246,400)	-	(356,264)	(1,602,664)
TOTAL OTHER FINANCING SOURCES (USES)	968,743	1,342,000	4,959,136	7,269,879
Net Change in Fund Balances	4,045,774	(1,918,341)	4,781,545	6,908,978
FUND BALANCES, BEGINNING OF YEAR	8,937,840	(256,400)	9,813,132	18,494,572
FUND BALANCES, AT END OF YEAR	\$ 12,983,614	\$ (2,174,741)	\$ 14,594,677	\$ 25,403,550

(1) Extracted from the audited financial statements of the Town.

**TOWN OF ANDOVER, MASSACHUSETTS
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE-GENERAL FUND(1)**

	June 30,	
	2010	2011
REVENUES:		
Real Estate Taxes	\$ 100,472,493	\$ 103,357,190
Motor Vehicle Excise	4,472,857	4,589,014
Tax Liens and Foreclosures	962,298	250,075
Departmental	2,936,968	2,917,888
Intergovernmental	22,369,078	22,167,301
Earnings on Investments	205,191	230,188
Licenses and Permits	1,523,489	1,506,207
Penalties and Interest on taxes	286,866	409,888
Other Revenues	136,239	1,767,064
TOTAL REVENUES	\$ 133,365,479	\$ 137,194,815
EXPENDITURES:		
General Government	4,830,344	4,939,219
Public Safety	13,749,772	14,258,639
Public Works	5,052,056	5,714,338
Municipal Maintenance	4,243,392	4,501,505
Community Development	-	-
Community Service	1,624,624	1,656,498
Schools	60,442,671	62,350,888
Pension Benefits	15,577,594	16,231,461
Debt Service	7,901,249	7,508,537
Library	2,494,766	2,529,870
State and County Charges	3,072,718	2,860,658
Employee Benefits	13,438,023	14,919,349
Other Expenditures	485,701	734,996
TOTAL EXPENDITURES	\$ 132,912,910	\$ 138,205,958
Excess (Deficit) of Revenues		
Over (Under) Expenditures	452,569	(1,011,143)
Other Financing Sources (Uses):		
Bond Issuance Cost	-	-
Refunding Bonding Proceeds	7,936,000	-
Interfund Transfers	-	-
Premium from issuance of bonds	892,842	-
Payments to refunded bond escrow agent	(8,951,608)	-
Operating Transfers in	2,103,947	2,061,173
Operating Transfers out (2)	(1,482,101)	(1,329,412)
Enterprise fund debt service transfer in	-	-
TOTAL OTHER FINANCING		
SOURCES (USES) (2)	499,080	731,761
Excess of Revenues and Other		
Sources Less Expenditures and		
Other Uses (2)	951,649	(279,382)
FUND BALANCES, BEGINNING OF FY	3,506,549	9,217,222
FUND BALANCES, FISCAL YEAR END (2)	\$ 4,458,198	\$ 8,937,840

(1) Extracted from the audited financial statements of the Town.

(2) Increase in General Fund Balance from ending balance in FY2010 to beginning balance in FY2011 is attributable to the new requirements of fund balances

Unassigned/Undesignated General Fund Balances and Free Cash

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy.

The following table presents a summary of the Town's undesignated general fund balances, free cash position, and transfers from free cash to reduce the following year's tax levy for the last five fiscal years:

Under the Uniform System of Accounting prescribed by The Commonwealth of Massachusetts Department of Revenue, subject to certain adjustments, free cash is defined as Surplus Revenue (unreserved general fund balance in the Town's case) less uncollected and overdue property taxes from prior years. The table below sets forth the amount of Free Cash for the following fiscal years.

The following table sets forth the trend in the Town's unassigned/undesignated general fund balance and free cash at the end of the last five fiscal years.

Fiscal Year	Unassigned/Undesignated General Fund Balance (1)	Free Cash
2015 (est.)	\$ 14,000,000	\$ 5,000,000
2014	14,603,525	5,761,265
2013	12,715,770	3,963,320
2012	10,772,493	4,073,271
2011	8,106,788	1,239,055
2010	3,250,042	1,609,854

(1) Source: Audited Financial Statements. Fiscal 2014, 2013, 2012 and 2011 figures are unassigned fund balances.

Stabilization Fund

The Town maintains a stabilization fund which is accounted for in the Trust Funds. Funded by an annual appropriation, the stabilization fund plus interest income may be appropriated at an annual or special town meeting for any municipal purpose.

The table below lists the Stabilization Fund balances as of the end of the following fiscal years. Fiscal 2013 operation budget appropriated \$232,000 to the stabilization fund and a transfer of \$2,000,000 was made to this fund from free cash in April 2013.

Fiscal Year	Stabilization Fund
2015 (est.)	\$ 8,725,000
2014 (1)	7,739,503
2013	7,099,541
2012	4,745,454
2011 (2)	4,599,359

(1) Includes the balance of the newly established Landfill Stabilization Fund (\$1,002,236) and Bond Premium Stabilization Fund (\$601,342).

(2) Due to the changes in GASB fund balance reporting practices, Stabilization Fund Balances are included in Unassigned General Fund Balance.

Additional Funds Available for Appropriation

The Town maintains an additional fund which is accounted for in the Trust Funds the balances of which plus interest income may be appropriated at an annual or special town meeting for any municipal purpose. The William Wood Fund, so-called, which was established as an unrestricted gift in 1973, had a balance at June 30, 2012 of \$1,278,921. Phillips Academy also contributes approximately \$165,486 annually to the Town as general fund revenue. At the 2013 Annual Town Meeting the Town voted to create two new accounts to which the balance of the above mentioned funds was appropriated. The Town established a Senior Center Programs fund and a Youth Center Building fund, each with a balance of approximately \$700,000 as of June 30, 2014. As of June 30, 2015, the Town projects the balance in the Senior Center Programs fund and Youth Center Building Fund balance to be approximately \$700,000 in each.

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½ (see "Tax Limitations" under "PROPERTY TAXATION" above.) The Town has not approved and has no current plans to approve any development districts at this time.

INDEBTEDNESS

Authorization Procedure and Limitations

Bonds and notes are generally authorized on behalf of the Town by a two-thirds vote of the Town Meeting. Borrowings for certain purposes require state administrative approval. Temporary loans in anticipation of certain state and county reimbursements are generally authorized by majority vote but provision is made for temporary loans in anticipation of current revenues and federal grants and for other purposes in certain circumstances without town meeting authorization.

Serial bonds and notes are authorized by a two-thirds vote of the town meeting. Provision is made in some cities and towns for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Refunding bonds and notes are authorized by the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the treasurer with the approval of the selectmen.

The general debt limit of the Town of Andover consists of a normal debt limit and a double debt limit. The normal debt limit is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with state administrative approval.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as "tax credit bonds" to the extent such bonds and notes are otherwise

permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years, but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities and for projects financed under the Commonwealth's Clean Water Programs and for certain economic development projects supported by the increment financings. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

Direct Debt Summary Projected as of June 30, 2015 (1)

General Obligation Bonds:		
Outstanding:		
Water (2)	\$ 11,819,049	
Sewer (3)	19,648,850	
School (4)	52,723,800	
General (5)	15,680,200	
Land Acquisition	<u>5,152,100</u>	
Total Long Term Outstanding		\$ 105,023,999
Bonds dated June 19, 2015		\$ 7,155,000
Short Term Indebtedness:		
New Money Bond Anticipation Notes (6)	<u>1,000,000</u>	
Total Short Term Outstanding After These Issues		<u>1,000,000</u>
Total Direct Debt		<u><u>\$ 113,178,999</u></u>

(1) \$38,856,800 has been exempted from the provisions of Proposition 2 ½.

(2) Self-supporting through enterprise fund revenues. Subject to a special separate debt limit of 10% of the Town's equalized valuation or \$712,077,280.

(3) Self-supporting through enterprise fund revenues. Subject to the Town's general debt limit.

(4) Subject to the Town's general debt limit, except for \$30,346,721 which is outside the debt limit. \$35,446,800 is exempt from the limits on Proposition 2 ½. The unpaid balance of school construction grants payable over the life of outstanding school debt is estimated at \$2,693,545. Said grant payments are applicable to both interest and principal.

(5) Subject to the Town's general debt limit, except for \$870,000 which is outside the debt limit. \$3,410,000 is exempt from the limits on Proposition 2 ½.

(6) This issue, payable June 17, 2016

Debt Ratios

The table below sets forth the ratio of debt to equalized valuation and per capita debt ratios at the end of the following fiscal years. The table considers the principal amount of general obligation bonds and serial notes of the Town of Andover. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole, or part, by non-tax revenues. (See "Direct Debt Summary").

Fiscal Year End	General Obligation Bonds Outstanding	2010 Federal Census Population	State Equalized Valuation	Per Capita Debt	Ratio Debt to Equalized Valuation
2015 (1)	\$ 105,023,999	33,201	\$ 7,120,772,800	\$ 3,163	1.47 %
2014	115,669,569	33,201	7,292,906,600	3,484	1.59
2013	97,298,198	33,201	7,292,906,600	2,931	1.33
2012	83,968,983	33,201	7,405,664,700	2,529	1.13
2011	86,828,019	33,201	7,405,664,700	2,615	1.17
2010	87,909,402	33,201	7,757,246,999	2,648	1.13

(1) Projected.

Principal Payments by Purpose

The following table sets forth the principal payments by purpose on outstanding bonds of the Town. As indicated in the table, of the total \$115,669,569 bonds outstanding, \$47,615,301 or approximately 41% of the total outstanding are to be paid by the end of fiscal 2019 and \$82,996,255 or approximately 72% of the debt will be retired at the end of fiscal 2024.

General Obligation Debt Principal Payments by Purpose Projected as of June 30, 2015 (1)

Fiscal Year	School (2)	Water (3)	Sewer (4)	General (5)	Land Acquisition	Total Outstanding
2016	\$ 5,174,000	\$ 965,263	\$ 1,958,300	\$ 2,015,200	\$ 441,850	\$ 10,554,613
2017	4,240,800	964,756	1,925,200	1,934,000	440,000	9,504,756
2018	3,556,000	970,004	1,885,000	1,709,000	425,000	8,545,004
2019	3,533,000	950,358	1,900,000	1,562,000	420,000	8,365,358
2020	3,360,000	950,819	1,935,000	1,405,000	415,000	8,065,819
2021	3,220,000	956,391	1,920,000	1,345,000	415,000	7,856,391
2022	3,060,000	922,076	1,875,000	1,070,000	415,000	7,342,076
2023	3,050,000	862,876	1,450,000	605,000	415,000	6,382,876
2024	2,680,000	863,792	1,220,000	560,000	410,000	5,733,792
2025	2,670,000	674,229	885,350	550,000	355,250	5,134,829
2026	2,660,000	660,987	800,000	535,000	295,000	4,950,987
2027	2,460,000	667,269	800,000	500,000	240,000	4,667,269
2028	2,420,000	337,238	510,000	440,000	175,000	3,882,238
2029	2,230,000	217,991	235,000	380,000	70,000	3,132,991
2030	2,005,000	180,000	110,000	315,000	60,000	2,670,000
2031	1,910,000	180,000	110,000	265,000	55,000	2,520,000
2032	1,810,000	180,000	75,000	230,000	35,000	2,330,000
2033	1,705,000	170,000	55,000	150,000	35,000	2,115,000
2034	980,000	145,000	-	110,000	35,000	1,270,000
Total	\$ 52,723,800	\$ 11,819,049	\$ 19,648,850	\$ 15,680,200	\$ 5,152,100	\$ 105,023,999

- (1) Excludes temporary loans, overlapping debt, lease purchase agreements, unfunded pension liability and other post-employment benefits liability.
- (2) Subject to the Town's general debt limit, except for \$30,346,721 which is outside the debt limit. \$35,446,800 is exempt from the limits on Proposition 2 ½. The unpaid balance of school construction grants payable over the life of outstanding school debt is estimated at \$2,693,545. Said grant payments are applicable to both interest and principal.
- (3) Self-supporting through enterprise fund revenues. Subject to a special separate debt limit of 10% of the Town's equalized valuation or \$712,077,280.
- (4) Self-supporting through enterprise fund revenues. Subject to the Town's general debt limit.
- (5) Subject to the Town's general debt limit, except for \$870,000 which is outside the debt limit. \$3,410,000 is exempt from the limits on Proposition 2 ½.

Debt Service Requirements

The following table sets forth the required principal and interest payments on all general obligation debt of the Town of Andover projected as of June 30, 2015.

GENERAL OBLIGATION BONDS AND SERIAL NOTES Debt Service Requirements Projected as of June 30, 2015 (1)

Fiscal Year	Total Principal	Total Interest	Total Principal and Interest	MSBA Subsidy	Net Debt Service
2016	\$ 10,554,613	\$ 3,811,460	\$ 14,366,073	\$ (1,551,445)	\$ 12,814,628
2017	9,504,756	3,433,553	12,938,309	(1,142,100)	11,796,209
2018	8,545,004	3,107,711	11,652,715	-	11,652,715
2019	8,365,358	2,765,633	11,130,991	-	11,130,991
2020	8,065,819	2,446,590	10,512,409	-	10,512,409
2021	7,856,391	2,142,065	9,998,456	-	9,998,456
2022	7,342,076	1,842,746	9,184,822	-	9,184,822
2023	6,382,876	1,567,052	7,949,928	-	7,949,928
2024	5,733,792	1,333,036	7,066,828	-	7,066,828
2025	5,134,829	1,113,237	6,248,066	-	6,248,066
2026	4,950,987	905,335	5,856,322	-	5,856,322
2027	4,667,269	734,084	5,401,353	-	5,401,353
2028	3,882,238	579,476	4,461,714	-	4,461,714
2029	3,132,991	458,905	3,591,896	-	3,591,896
2030	2,670,000	359,556	3,029,556	-	3,029,556
2031	2,520,000	274,641	2,794,641	-	2,794,641
2032	2,330,000	196,019	2,526,019	-	2,526,019
2033	2,115,000	124,838	2,239,838	-	2,239,838
2034	1,270,000	50,800	1,320,800	-	1,320,800
Total	<u>\$ 105,023,999</u>	<u>\$ 27,246,735</u>	<u>\$ 132,270,734</u>	<u>\$ (2,693,545)</u>	<u>\$ 129,577,189</u>

(1) Excludes temporary loans, overlapping debt, lease purchase agreements, unfunded pension liability and other post-employment benefits liability.

Authorized Unissued Debt and Prospective Financing

Currently, the Town has approximately \$24,630,678 of authorized and unissued debt as follows:

Purpose	Authorization
Land Acquisition	\$ 1,200,000
Sewer (1)	2,550,000
School (2)	9,130,678
Landfill Closure (3)	7,395,000
Water	1,640,000
General Government	2,715,000
Totals	<u>\$ 24,630,678</u>

- (1) Any future financing is expected to be fully-supported by sewer or water user charges and betterment assessments.
- (2) The Town expects to receive reimbursement from the Massachusetts School Building Authority for approximately 36.7% of the project costs for the design and construction of the Bancroft School. This project was authorized on December 6, 2010 in the total amount of \$43,835,000. On February 11, 2013, the Town authorized an additional \$5,715,000 in order to complete this project.
- (3) The Town expects the majority of this project to be financed through the Massachusetts Water Pollution Abatement Trust.

Overlapping Debt

The Town of Andover is a member of the Greater Lawrence Regional Vocational Technical High School District, the Merrimack Valley Regional Transit Authority and the Greater Lawrence Sanitary District. The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of each of the overlapping entities as of June 30, 2014, the Town's estimated gross share of such debt, and fiscal 2014 dollar assessments.

Overlapping Entity	Outstanding Debt as of June 30, 2014	Andover's Estimated Share(1)	Fiscal 2014 Dollar Assessment(2)
Greater Lawrence Regional Vocational Technical School District(3)	\$ 23,971,000	0.8 %	\$ 330,974
Merrimack Valley Regional Transit Authority(4)	-	0.0	12,041
Greater Lawrence Sanitary District(5)	28,879,674	7.1	1,513,519

- (1) Estimated share based on debt service only.
- (2) Estimated dollar assessment based upon total net operating expenses, inclusive (where applicable) of debt service.
- (3) SOURCE: Greater Lawrence Regional Vocational Technical High School District. Towns may organize regional school districts to carry out general or specialized educational functions. Pursuant to special laws a number of cities may also participate in regional school district, primarily for vocational education. The operating expenses and debt service of regional school districts are apportioned among the member municipalities in accordance with the agreements establishing the district subject to the provisions of the Education Reform Act of 1993. The municipal share is based on the ratio of that member's pupil enrollment to the total pupil enrollment from all the member municipalities in the regional school district as of October 1 of the year proceeding the year for which the apportionment is being determined.
- (4) SOURCE: Merrimack Valley Regional Transit Authority. These are transportation authorities which have been established outside the Boston area. It has been state practice in recent years to provide a portion of their net cost of service, including debt service on their bonds. In addition to the other sources of funds provided by Massachusetts General Laws Chapter 161B from which the regional transit authorities may obtain monies for the payment of the principal of and interest on their obligations, such payment will be further secured by the Commonwealth, which is required to pay to the regional transit authorities amounts duly certified by the administrator of the authority as necessary to pay any principal or interest due or about to come due for such purpose. The remainder of the net cost of service is assessed upon the member cities and towns in proportion to the amount of the net cost incurred on routes within each city or town. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year. (See "Tax Limitations" under "PROPERTY TAXATION" above. The Authority currently has no authorized unissued debt.
- (5) SOURCE: Greater Lawrence Sanitary District. Each member community pays for its proportionate share of the District's operating costs based upon the percent of wastewater received from each respective community. Member communities include Andover, Lawrence, Methuen and North Andover and Salem, New Hampshire by agreement.

CONTRACTUAL OBLIGATIONS

Obligations to make payments on account of municipal contracts are generally limited to currently available appropriations. A Massachusetts city or town has general statutory authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but in most cases only when funds are available for the first fiscal year; obligations for succeeding fiscal years are in those cases expressly subject to availability and appropriation of funds. Specific authority exists in relatively few cases for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal (20 year maximum term) and certain contracts by municipal electric departments. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town of Andover, at present, has a limited number of contractual obligations. The Town has a solid waste disposal and collection agreement to dispose of their municipal waste with Republic Services. The Town budgeted \$983,014 for this contract in fiscal 2015.

The second significant contract is the recycling contract with Integrated Paper Recyclers which is also in the third year of a three year contract with the two year option to extend. Town budgeted \$433,000 for this contract in fiscal 2015.

RETIREMENT PLAN

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent.

The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with

reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

In fiscal 1994, the Retirement System adopted a funding schedule to fully fund the Retirement System by 2028, and in fiscal 1998 unanimously approved the adoption of COLA. The future cost of COLA, as well as the present cost, has been built into the funding schedule and submitted to the state Public Employee Retirement Administration for approval. The Retirement Board has adopted a revised funding schedule designed to eliminate the unfunded actuarial liability by 2040.

The annual required contributions of the Town of Andover Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board, for the current and last five fiscal years were as follows:

<u>Year Ending</u>	<u>Contributory</u>	<u>Non-Contributory</u>
June 30, 2016 (budgeted)	\$ 8,007,778	\$ -
June 30, 2015	6,207,276	-
June 30, 2014	5,746,224	-
June 30, 2013	5,317,870	-
June 30, 2012	4,921,151	-
June 30, 2011	4,712,555	-

The unfunded pension benefit obligation of the contributory retirement system on January 1, 2014 was as follows:

Actuarial Accrued Liabilities	\$214,000,142
Market Value of Fund Assets	<u>103,423,064</u>
Unfunded Pension Benefit Obligation	<u>\$110,577,078</u>

SOURCE: Extracted from the audited financial statements. Estimates of actuarial liabilities depend on the underlying actuarial assumptions and reference is made to Appendix A for a description of these assumptions.

Funding Schedule (As of January 1, 2014)

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of Remaining Liability	(4) Total Plan Cost: (2) + (3)	(5) Total UAL	(6) Total Plan Cost: % Increase
2015	\$1,673,938	\$4,814,745	\$6,488,683	\$114,781,990	--
2016	1,748,628	6,259,150	8,007,778	116,636,688	23.41%
2017	1,826,627	6,821,773	8,648,400	117,976,337	8.00%
2018	1,908,081	7,432,191	9,340,272	117,364,927	8.00%
2019	1,993,142	8,094,352	10,087,494	117,211,564	8.00%
2020	2,081,968	8,812,525	10,894,493	117,831,348	8.00%
2021	2,174,725	9,591,328	11,766,053	117,738,444	8.00%
2022	2,271,587	10,435,750	12,707,337	116,813,036	8.00%
2023	2,372,733	11,351,191	13,723,924	114,920,692	8.00%
2024	2,478,353	12,343,485	14,821,838	111,910,794	8.00%
2025	2,588,642	13,418,943	16,007,585	107,614,818	8.00%
2026	2,703,807	14,584,385	17,288,192	101,844,441	8.00%
2027	2,824,061	15,847,186	18,671,247	94,389,453	8.00%
2028	2,949,628	17,215,319	20,164,947	85,015,476	8.00%
2029	3,080,742	18,697,401	21,778,143	73,461,447	8.00%
2030	3,217,646	20,302,748	23,520,394	59,436,861	8.00%
2031	3,360,594	22,041,432	25,402,026	42,618,743	8.00%
2032	3,509,852	22,458,589	25,968,441	22,319,324	2.23%
2033	3,665,697	--	3,665,697	--	-85.88%

Notes: Recommended contributions are assumed to be paid on August 1.

Item (2) reflects 4.0% growth in payroll as well as a 0.15% adjustment to total normal cost to reflect the effects of mortality improvement due to generational mortality assumption.

Assumes contribution of budgeted amount for fiscal 2015.

Projected normal cost does not reflect the future impact of pension reform for future hires.

Projected unfunded actuarial accrued liability reflects deferred investment gains.

Source: January 1, 2014 Actuarial Valuation Report of the Andover Retirement System, PERAC and Actuarial Valuation and Review as prepared by Segal.

Other Post-Employment Benefits

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis. The pay-as-you-go cost to the Town for such benefits to town and school department retirees in recent years has been as follows:

Fiscal Year	Benefit Costs
2014	\$ 7,010,000
2013	5,493,000
2012	6,075,000
2011	5,879,000
2010	5,548,000

The Governmental Accounting Standards Board ("GASB") recently promulgated its Statement Nos. 43 and 45, which will for the first time require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. On January 10, 2009, Massachusetts enacted Chapter 479 of the Acts of 2008 which permits municipalities to establish a trust fund for the purpose of pre-funding this liability in the same manner as traditional pension benefits. At the April 2010 town meeting, the Town accepted the state legislation to establish a trust fund for OPEB purposes. As of June 30, 2012 the trust fund had a balance of \$706,248. As of June 30, 2013 the trust fund had a balance of \$1,101,669. As of June 30, 2014 the trust fund had a balance of \$2,708,978. The projects the OPEB Trust Fund balance to be \$3,459,250 as of June 30, 2015.

The Town has performed an actuarial valuation study of its non-pension, post-employment benefits. As of June 30, 2013, the Town's unfunded actuarial accrued liability is approximately \$144,813,670 (assuming an 5.75% partially funded discount rate) and the annual required contribution is \$11,423,535.

PROJECTION OF ARC

30 Years Open (5.75% discount rate, payments increasing 3.75%)

Fiscal Year Ended June 30	(1) Projected Benefits Payments	(2) Normal Cost	(3) Amortization of UAAL	(4) ARC (3) + (2)	(5) Additional Funding	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$ 5,192,903	\$ 5,305,857	\$ 6,117,678	\$ 11,423,535	\$ 300,000	\$ 1,101,668	\$ 145,915,338	\$ 144,813,670
2014	5,608,335	5,571,150	6,548,799	12,119,949	402,440	1,604,791	154,267,231	152,662,440
2015	6,166,988	5,849,708	6,808,861	12,658,569	1,400,000	3,182,400	162,811,322	159,628,922
2016	6,642,857	6,142,193	7,119,571	13,261,764	1,500,000	4,986,076	171,658,116	166,672,040
2017	7,258,340	6,449,303	7,433,699	13,883,002	1,600,000	7,033,340	180,696,486	173,663,146
2018	7,870,802	6,771,768	7,745,508	14,517,276	1,700,000	9,343,070	189,956,344	180,613,274
2019	8,358,134	7,110,356	8,055,489	15,165,845	1,800,000	11,935,606	199,595,684	187,660,078
2020	8,957,821	7,465,874	8,369,782	15,835,656	1,900,000	14,832,867	209,538,195	194,705,328
2021	9,556,438	7,839,168	8,684,005	16,523,173	2,000,000	18,058,468	219,820,690	201,762,222
2022	10,098,099	8,231,126	8,998,748	17,229,874	2,100,000	21,637,856	230,540,481	208,902,625
2023	10,753,888	8,642,682	9,317,215	17,959,897	2,200,000	25,598,449	241,625,504	216,027,055
2024	11,291,582	9,074,816	9,634,970	18,709,786	2,300,000	29,969,791	253,239,363	223,269,572
2025	11,856,162	9,528,557	9,957,992	19,486,549	2,400,000	34,783,715	265,407,038	230,623,323
2026	12,448,970	10,004,985	10,285,975	20,290,960	2,500,000	40,074,520	278,154,675	238,080,155
2027	13,071,418	10,505,234	10,618,555	21,123,789	2,600,000	45,879,165	291,509,638	245,630,473
2028	13,724,989	11,030,496	10,955,305	21,985,801	2,700,000	52,237,473	305,500,565	253,263,092
2029	14,411,238	11,582,021	11,295,726	22,877,747	2,800,000	59,192,353	320,157,427	260,965,074
2030	15,131,800	12,161,122	11,639,240	23,800,362	2,900,000	66,790,039	335,511,588	268,721,549
2031	15,888,390	12,769,178	11,985,185	24,754,363	3,000,000	75,080,348	351,595,868	276,515,520
2032	16,682,810	13,407,637	12,332,802	25,740,439	3,100,000	84,116,959	368,444,612	284,327,653
2033	17,516,950	14,078,019	12,681,229	26,759,248	3,200,000	93,957,710	386,093,759	292,136,049
2034	18,392,798	14,781,920	13,029,489	27,811,409	3,300,000	104,664,922	404,580,910	299,915,988
2035	19,312,438	15,521,016	13,376,480	28,897,496	3,400,000	116,305,745	423,945,410	307,639,665
2036	20,278,060	16,297,067	13,720,962	30,018,029	3,500,000	128,952,535	444,228,424	315,275,889
2037	21,291,963	17,111,920	14,061,544	31,173,464	3,600,000	142,683,254	465,473,019	322,789,765
2038	22,356,561	17,967,516	14,396,668	32,364,184	3,700,000	157,581,906	487,724,251	330,142,345
2039	23,474,389	18,865,892	14,724,599	33,590,491	3,800,000	173,739,006	511,029,256	337,290,250
2040	24,648,108	19,809,187	15,043,401	34,852,588	3,900,000	191,252,084	535,437,434	344,185,350
2041	25,880,514	20,799,646	15,350,923	36,150,569	4,000,000	210,226,228	561,000,089	350,773,861
2042	27,174,539	21,839,628	15,644,780	37,484,408	4,100,000	230,774,671	587,771,448	356,996,777

Notes: Assumes payment in the middle of the fiscal year.
Fiscal 2013 and 2014 additional funding represents actual contribution.
Fiscal 2015 and later additional funding is based on funding policy.

SOURCE: Actuarial Valuation and Review of Other Post-Employment Benefits (OPEB) as of June 30, 2013 prepared by Segal Consulting.

FUNDING SCHEDULE

30 Years Closed (7.75% discount rate, payments increasing 3.75%)

Fiscal Year Ended June 30	(1) Projected Benefits Payments	(2) Normal Cost with Interest	(3) Amortization of UAAL	(4) Total Funding Requirement (3) + (2)	(5) Additional Funding (4) - (1)	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$ 5,192,903	\$ 3,617,081	\$ 5,972,076	\$ 9,589,157	\$ 4,396,254	\$ 1,101,668	\$ 112,435,087	\$ 111,333,419
2014	5,608,335	3,797,935	6,440,301	10,238,236	4,629,901	5,993,009	119,269,562	113,276,553
2015	6,166,988	3,987,832	6,681,812	10,669,644	4,502,656	11,131,346	126,250,930	115,119,584
2016	6,642,857	4,187,224	6,932,380	11,119,604	4,476,747	16,641,010	133,486,364	116,845,354
2017	7,258,340	4,396,585	7,192,345	11,588,930	4,330,590	22,425,957	140,860,978	118,435,021
2018	7,870,802	4,616,414	7,462,057	12,078,471	4,207,669	28,531,643	148,399,561	119,867,918
2019	8,358,134	4,847,235	7,741,885	12,589,120	4,230,986	35,134,722	156,256,119	121,121,397
2020	8,957,821	5,089,597	8,032,205	13,121,802	4,163,981	42,179,988	164,350,647	122,170,659
2021	9,556,438	5,344,077	8,333,413	13,677,490	4,121,052	49,726,700	172,715,278	122,988,578
2022	10,098,099	5,611,281	8,645,916	14,257,197	4,159,098	57,897,775	181,443,274	123,545,499
2023	10,753,888	5,891,845	8,970,138	14,861,983	4,108,095	66,649,166	190,458,196	123,809,030
2024	11,291,582	6,186,437	9,306,518	15,492,955	4,201,373	76,175,615	199,919,428	123,743,813
2025	11,856,162	6,495,759	9,655,512	16,151,271	4,295,109	86,537,665	209,848,941	123,311,276
2026	12,448,970	6,820,547	10,017,594	16,838,141	4,389,171	97,800,412	220,269,779	122,469,367
2027	13,071,418	7,161,574	10,393,254	17,554,828	4,483,410	110,033,844	231,206,109	121,172,265
2028	13,724,989	7,519,653	10,783,001	18,302,654	4,577,665	123,313,207	242,683,276	119,370,069
2029	14,411,238	7,895,636	11,187,363	19,082,999	4,671,761	137,719,395	254,727,859	117,008,464
2030	15,131,800	8,290,418	11,606,890	19,897,308	4,765,508	153,339,373	267,367,729	114,028,356
2031	15,888,390	8,704,939	12,042,148	20,747,087	4,858,697	170,266,633	280,632,112	110,365,479
2032	16,682,810	9,140,186	12,493,728	21,633,914	4,951,104	188,601,677	294,551,654	105,949,977
2033	17,516,950	9,597,195	12,962,243	22,559,438	5,042,488	208,452,546	309,158,488	100,705,942
2034	18,392,798	10,077,055	13,448,327	23,525,382	5,132,584	229,953,379	324,486,305	94,532,926
2035	19,312,438	10,580,908	13,952,640	24,533,548	5,221,110	253,175,024	340,570,430	87,395,406
2036	20,278,060	11,109,953	14,475,864	25,585,817	5,307,757	278,305,683	357,447,896	79,142,213
2037	21,291,963	11,665,451	15,018,709	26,684,160	5,392,197	305,471,619	375,157,529	69,685,910
2038	22,356,561	12,248,724	15,581,910	27,830,634	5,474,073	334,827,905	393,740,030	58,912,125
2039	23,474,389	12,861,160	16,166,232	29,027,392	5,553,003	366,541,234	413,238,064	46,696,830
2040	24,648,108	13,504,218	16,772,465	30,276,683	5,628,575	400,790,793	433,696,356	32,905,563
2041	25,880,514	14,179,429	17,401,433	31,580,862	5,700,348	437,769,194	455,161,782	17,392,588
2042	27,174,539	14,888,400	18,053,987	32,942,387	5,767,848	477,683,488	477,683,488	-

Notes: Assumes payment in the middle of the fiscal year.
Fiscal 2013 additional funding represents actual contribution.

SOURCE: Actuarial Valuation and Review of Other Post-Employment Benefits (OPEB) as of June 30, 2013 prepared by Segal Consulting.

EMPLOYEE RELATIONS

The Town employs approximately 1,187 full and part-time workers, of whom 96 are employed by the School Department, 72 by the Fire Department, 59 by the Police Department, 96 by the Public Works and Maintenance Departments, and the balance of the employees are in various other departments of the Town. Town and school employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. Of the 1,183 full and part-time employees of the Town, 1,288 are represented by unions including employees of the school, police, fire and public works departments. The contracts for the food service workers, instructional assistants, school custodians, school administrators and school secretaries' contracts expire on June 30, 2017. The school teachers' contract expires August 31, 2017. The contracts with the fire, public works, and custodians expired on June 30, 2014 which are currently in negotiations.

LITIGATION

At present there are cases pending in various courts throughout the Commonwealth where the Town of Andover is a defendant. In the opinion of the Town, none of the pending litigation is likely to result, either individually or in the aggregate, in a final judgment against the Town that would materially affect its financial position.

June 11, 2015

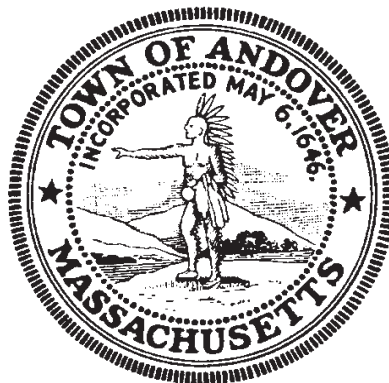
TOWN OF ANDOVER, MASSACHUSETTS
/s/ David J. Reilly, Treasurer

THIS PAGE INTENTIONALLY LEFT BLANK

**TOWN OF ANDOVER, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT**



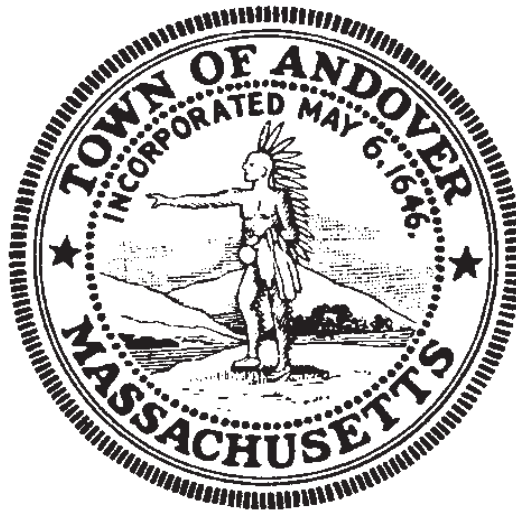
For the Year Ended June 30, 2014



TOWN OF ANDOVER, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2014



Prepared by:

Theodora Moccia, Town Accountant

TOWN OF ANDOVER, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2014

TABLE OF CONTENTS

Introductory Section:

Letter of Transmittal	A-1
GFOA Certificate of Achievement	A-7
Organizational Chart	A-8
Principal Town Officials	A-9

Financial SectionA-13

Independent Auditor's Report	A-15
Management's Discussion and Analysis	A-17
Basic Financial Statements	A-27
Statement of Net Position	A-29
Statement of Activities	A-30
Governmental funds – balance sheet	A-32
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position	A-33
Governmental funds – statement of revenues, expenditures and changes in fund balances	A-34
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities	A-35
Proprietary funds – statement of net position	A-36
Proprietary funds – statement of revenues, expenses and changes in net position	A-37
Proprietary funds – statement of cash flows	A-38
Fiduciary funds – statement of net position	A-39
Fiduciary funds – statement of changes in net position	A-40
Notes to basic financial statements	A-41
Required Supplementary Information	A-69
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual	A-71
Retirement System Schedule of Funding Progress and Employer Contributions	A-73
Andover Contributory Retirement System schedule of funding progress and employer contributions	A-74
Other Postemployment Benefit Plan Schedules	A-75
Other postemployment benefit plan schedule of funding progress and employer contributions	A-76

Other postemployment benefit plan actuarial methods and assumptions.....	A-77
Notes to required supplementary information	A-78
Combining and Individual Fund Statements	A-81
Nonmajor Governmental Funds	A-82
Nonmajor governmental funds – combining balance sheet	A-84
Nonmajor governmental funds – combining statement of revenues, expenditures, and changes in fund balances	A-86
Internal Service Funds.....	A-91
Internal service funds – combining statement of net position.....	A-92
Internal service funds – combining statement of revenues, expenses, and changes in net position.....	A-93
Internal service funds – combining statement of cash flows	A-94
Agency Fund	A-95
Agency fund – statement of changes in assets and liabilities	A-96
Statistical Section.....	A-97
Net position by component – last ten years.....	A-99
Changes in net position – last ten years.....	A-100
Fund balances, governmental funds – last ten years	A-102
Changes in fund balances, governmental funds – last ten years	A-103
Assessed value and actual value of taxable property by classification and tax rates.....	A-104
Principal taxpayers – current year and nine years ago	A-105
Property tax levies and collections – last ten years.....	A-106
Ratios of outstanding debt and general bonded debt – last ten years	A-107
Direct and overlapping governmental activities debt – as of June 30, 2014	A-108
Computation of legal debt margin – last ten years	A-109
Demographic and economic statistics – last ten years.....	A-110
Principal employers (excluding Town) – current year and nine years ago.....	A-111
Full-time equivalent Town employees – last ten years.....	A-112
Operating indicators by function/program – last ten calendar years	A-113
Capital asset statistics by function/program – last ten years.....	A-116
Computation of levy capacity and unused levy capacity – last ten years.....	A-117

Introductory Section



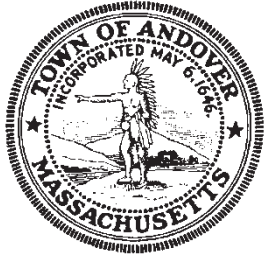
Pomps Pond



West Parish

Introductory Section

This page intentionally left blank.



Town of Andover

36 Bartlet Street

Andover, Massachusetts 01810

(978) 623-8211

FAX (978) 623-8208

Letter of Transmittal

December 10, 2014

To Members of the Board of Selectmen and Citizens of the Town of Andover:

At the close of each year state law requires the Town of Andover to publish a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the Town of Andover, Massachusetts, for the year ending June 30, 2014 for your review.

This report consists of management's representations concerning the finances of the Town of Andover. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Andover has established a comprehensive internal control framework that is designed both to protect the Government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Andover's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Andover's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements for the year ended June 30, 2014, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Town of Andover's financial statements have been audited by Powers & Sullivan, LLC a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Andover for the year ended June 30, 2014 are free of material misstatement.

The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town of Andover's financial statements for the year ended June 30, 2014 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Andover was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal

requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Andover's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement that analysis and should be read in conjunction with it. The Town of Andover's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town

Andover is located in Essex County in the northeastern part of Massachusetts, approximately 23 miles north of Boston. Located on the banks of the Merrimack River, Andover is bordered on the north by the cities of Lawrence and Methuen, on the east by the Town of North Andover, on the south by the Towns of North Reading and Wilmington, and on the west by the Towns of Tewksbury and Dracut. Andover has approximately 32 square miles of land area, and 235 miles of roadways.

Andover is bisected by two major highway systems, Interstate 93 and 495, and a number of secondary roadways including Routes 28, 133, 114 and 125. Public transportation is available via two commuter rail service stations from Andover to the metropolitan Boston area provided by the Massachusetts Bay Transportation Authority, and a regional bus service provided by the Merrimack Valley Transit Authority.

Andover was originally settled in 1636 under the native-American name of Cochichawicke, a local waterway. The community was incorporated in 1646 as the Town of Andover, named after a Town in England where many of its settlers had come from.

From the earliest days, manufacturing has played a major part in the Town of Andover's development. The region's first powder mill was established in 1775; the manufacture of paper began in 1789; and in the early nineteenth century, several woolen mills prospered. While all of these early forms of manufacturing have since moved away, Andover continues to attract major modern industries.

Andover is known for its forward thinking government, committed to quality, responsiveness, and service. The Town's governing Charter was enacted by the Legislature in 1956, amended in 1974 and again in 2004. The Charter authorizes an Open Town Meeting-Board of Selectmen-Town Manager form of government. The Town is overseen by an elected five-member Board of Selectmen, and is administered by an appointed professional Town Manager, who also oversees approximately 20 departments and divisions. Andover's public schools are overseen by an elected five-member School Committee, and administered by an appointed professional Superintendent. There are also various appointed boards and committees which have specific responsibilities concerning various aspects of Town governance. Town Meeting, which is generally unique to New England, serves as Andover's legislative body. It offers all registered voters of the community the opportunity to participate in the major decisions of the Town. Town Meeting is facilitated by an elected Town Moderator, who is responsible for appointing a nine member Finance Committee, which in turn is responsible for advising Town Meeting on matters brought before it.

The Town provides a full array of high quality services to the general public, including: full-time police and fire protection; schools for grades kindergarten through 12, (six elementary, three middle, one senior high, and one regional vocational technical high school); solid waste disposal and recycling; street maintenance and snow removal; public health and natural resource protection; community development and planning; elder, youth and veteran services; a full service library; and various parks, playgrounds, conservation lands, and recreational programs. The Town also operates its own water supply, treatment and distribution system; and provides sanitary program. The Town also operates its own waste supply, treatment and distribution system; and provides sanitary waste disposal via connections to a regional treatment facility. During the summer months the Town operates

Pomp's Pond, a family and youth oriented recreation area located off Abbot Street, which includes recreational and instructional swimming, shaded picnic tables, boat rentals, volleyball, and children's playground. The Town of Andover is committed to a high degree of community responsiveness, providing high quality services to its citizens, and conducting all its affairs in a professional manner.

Factors Affecting Economic Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Andover operates.

Local economy: Andover is home to businesses of all sizes. The Town is known for its vibrant and diversified local economy. With its major intersecting highways, busy rail line, and proximity to international airports in Boston, MA and Manchester, NH, Andover is a true business "cross roads." The Town offers several industrial parks, a thriving downtown central business district, and a number of mixed use commercial areas. Andover is a highly sought after location for large companies representing major industries, including those involved in defense contracting, computer hardware and software, life science, pharmaceutical, biotech, and medical products. Andover's largest commercial/industrial employers are Raytheon, Internal Revenue Service, Philips Medical, Pfizer, Putman Investments, Vicor, Verizon, Phillips Academy, Enterasys and Hewlett Packard. There are approximately 500 acres of developable commercial and industrial land remaining in Town, as well as significant office space rental opportunities, suitable for accommodating almost any business need. The Town anticipates continued expansion of its sizable \$6.84 billion tax base given its favorable location, diverse high-end employment base, and availability of developable land. Andover has seen solid growth rates annually since 1999, reflecting continued expansion of commercial and industrial properties and sustained value appreciation.

In the spring of 2012, the Town successfully approved via Town Meeting their 1st Tax Increment Financing (TIF) for Schneider Electric. Schneider Electric (SE) agreed to relocate and consolidate several area operations into a redeveloped and expanded facility at 800 Federal Street (160,860 sf) with a proposed addition of 77,000 sf. In total this project will bring on-line approximately 227,860 sq of industrial space that has been sparsely occupied since developed in 1999. The company will bring over 710 jobs to Andover, with opportunities for future organic growth in the adjacent facility located at 600 Federal Street. With a minimum private investment of \$20 million dollars, the current assessment of \$8 million dollars would substantially rise to an estimated \$20 million, with the projected new annual tax revenue being approximately \$404 million. The new North American headquarters for Schneider Electric had its grand opening in September 2014 and Governor Patrick Deval attended the ribbon cutting ceremony.

Two major zoning initiatives were approved by Town Meeting voters, the Senior Residential Community Overlay District and the creation of a new Industrial 2 District. Amendments of this scale and complexity have not been considered by the Town since the adoption of the original Industrial Districts back in the 1960's.

Long-term financial planning: The Town of Andover has a proud history of maintaining a solid financial position in all economies, as indicated by its "AAA" bond rating assigned by Standard & Poor. The Town's financial actions are generally guided by a number of formal financial policies including long range planning tools such as a multi-year forecast, a five year Capital Improvement Program, prioritizing spending plans and identifying discretionary spending, pay-as-you go financing strategies, long-term planning for all liabilities including pension and insurance reserves, and municipal best practices, which are reviewed annually at the beginning of each budget development cycle.

Given the number of years of reduced/or level state aid, the Town has been able to minimize the impact to municipal and school services through a combination of prudent budgeting, user fee adjustments, strong tax collections, and continued property growth, along with taking steps towards slowing the rising rate of employee healthcare costs. The Town is currently managing approximately \$116.2 million worth of long and short-term debt.

This indebtedness consists of approximately \$82.3 million of governmental bonds, and \$33.9 million of enterprise fund bonds which are self-supporting through enterprise fund revenues.

The Town has authorized but unissued debt for school construction, land acquisition, landfill closure, water and sewer infrastructure and other various projects totaling \$22.6 million as of June 30, 2014. This includes \$8 million remaining authorized unissued for the Bancroft School of which a substantial portion will be rescinded. The school opened its doors in September of 2014. It is a LEED Silver Certified (Leadership in Energy and Environmental Design) building and is designed to be environmentally sustainable.

In 2014 the Town transferred \$1.0 million to a newly established "Landfill Stabilization Fund" to mitigate future debt service payments relating to the closure of the Ledge Road Landfill. The Town also established a "Debt Service Stabilization Fund" for the purpose of paying principal and interest on non-exempt outstanding debt and transferred \$600,000 from the Town's General Stabilization Fund to the new fund. Additionally, the Town established an elder services stabilization fund in 2014 with a transfer totaling \$700,000 from the C.D. Wood trust fund. The Town's general Stabilization fund totaled \$6.2 million as of June 30, 2014.

The Town of Andover has enhanced its revenue flexibility by establishing enterprise funds and many other user supported programs. This has allowed the Town to shift the operating costs to the users of certain services so that little or no tax support goes towards providing these services. By doing so, the Town is able to provide the maximum tax dollars available to all other services.

An Audit Committee assists the Town Manager with the selection of the independent auditor, oversight of the audit process, and resolution of audit findings.

Cash management policies and practices: The Town of Andover issues property tax bills quarterly and derives approximately 75% of annual General Fund revenue from this source. The quarterly billings result in a cyclical build-up and then spend-down of operational cash reserves. Every effort is made to put our reserves to work. For the past 48 months, this has been a challenging proposition due to the struggling economy and the accompanying weak financial markets which has resulted in a low rate of return for most traditional investment vehicles. The Federal Open Market Committee has dropped the Federal Funds Rate from 1.0% down to a sliding scale of 0.0% to .025%. Short term rates, and most permissible investments, are highly influenced by this rate. The Fed expects to keep this rate structure for an extended period of time because they are of the opinion that the economic recovery will be a very slow and gradual process and raising rates could stagnate the recovery cycle. The Town's investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield possible within those constraints.

On a daily basis, the Treasurer's Office transfers funds into various depository accounts at local/regional banking institutions. Short term funds are transferred to various banks and financial institutions to obtain the highest competitive return. The Treasurer is responsible for having on hand adequate cash to pay invoices and fund payroll on a weekly basis. Regulations depicting the type of investments that general fund receipts and free cash can be invested in limit the Treasurer's ability to invest longer term. In today's challenging market environment, short-term earnings will be depressed for the foreseeable future.

The Treasurer continually evaluates cash flow data to determine the amount of money that can be invested for a longer term and thus, yield a higher return on investments. The Treasurer's Office operates on an aggregate cash basis and invests in the same manner. Currently, the maturities of the various investments range from 30 days to one year with an average maturity of approximately three months.

While maintaining a highly diversified investment portfolio, the Treasurer also aims to maintain competitive relationships with numerous banks and other financial institutions. Through these relationships, the Treasurer continually investigates new investment vehicles and products to assist in generating the highest possible yield,

while at the same time maintaining safety and liquidity. Since short-term rates fluctuate frequently amongst these institutions, the Treasurer monitors the investments, and the market, to keep abreast of what is happening with the investment environment.

The Town's trust funds are managed by various financial institutions Trust Division's. Each trust fund has a distinct purpose which therefore will affect the mix of holdings in cash, fixed income securities and equities that will vary by fund depending on that fund's particular needs. The amount of annual income required and the timing of disbursements generally governs the types and the quantities of the investments in the fund's portfolio.

Risk management: The Town of Andover manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Health care and workers compensation are a combination of self-insured and premium based plans. The Town is exposed to various risks of loss related to general liability, property and casualty, workers' compensation and unemployment compensation claims. Buildings and property are fully insured against fire, theft and natural disaster to the extent that losses exceed the Town's deductible per incident. These deductibles vary by type of incident, none of which exceed \$50,000.

Pension and other post-employment benefits: The Town of Andover contributes to the Andover Contributory Retirement System (the System), a cost sharing defined benefit pension plan administered by the Andover Contributory Retirement Board. Every two years, an independent actuary engaged by the Andover Contributory Retirement Board calculates the amount of the annual contribution that the Town of Andover must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a requirement by law, the Town of Andover fully funds each year's annual required contribution to the pension plan as determined by the actuary. The System has succeeded in funding 48.33% of the present value of the projected benefits earned by employees based on the last actuarial valuation of January 2014. The remaining unfunded amount is being systematically funded over 26 years as part of the annual required contribution calculated by the actuary. The System will be conducting its next actuarial valuation as of January, 2016.

The Town of Andover also provides postemployment health care and life insurance benefits for Town and School retirees and their dependents. There were 466 retired employees receiving these benefits. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. The Town completed its most recent actuarial valuation, dated June 30, 2013. The Town established a Post-Employment Benefit Trust fund with an initial deposit of \$258,120 and has continued to make deposits; the 2014 Town Meeting appropriated \$1.3 million to the OPEB Trust Fund bringing the balance in the fund to \$2.7 million. Additional information on the Town of Andover's pension and postemployment benefits can be found in the notes to the financial statements.

Annual budget process and control: The Town Manager is responsible for preparing and presenting the budget to the Finance Committee and the Board of Selectmen. The Selectmen review all requests and Town-wide issues and present a budget to Town Meeting for approval. A nine member Finance Committee reviews the budget and makes its independent recommendations to Town Meeting.

The level of budgetary control is established by Town Meeting and this approval defines the level at which expenditures may not exceed appropriations. This level is typically at the functional level. The Town Accountant is responsible for ensuring all payroll and invoices are within the budgetary control level before authorizing payment. Additional appropriations may be approved at subsequent Town Meetings. These controls ensure compliance with the budget approved by Town Meeting.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) has again awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. This was the tenth consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

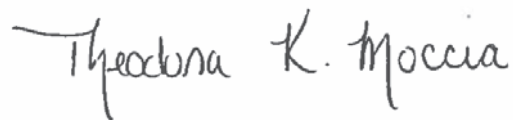
The preparation of this report would not have been possible without the efficient and dedicated services of the Accounting and Treasurer Department staffs. We would like to express our appreciation to all members, both Town and School, who assisted and contributed in the preparation of this report. Credit must also be given to the Town Selectmen for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Andover's finances.

Respectfully submitted,

A handwritten signature in black ink that reads "Reginald S. Stapczynski". The signature is written in a cursive style with a large initial 'R'.

Reginald S. Stapczynski

Town Manager

A handwritten signature in black ink that reads "Theodora K. Moccia". The signature is written in a cursive style with a large initial 'T'.

Theodora Moccia

Town Accountant



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

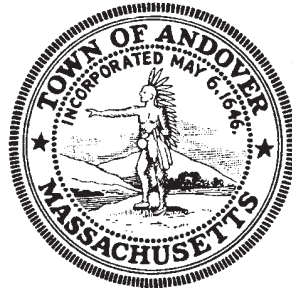
**Town of Andover
Massachusetts**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

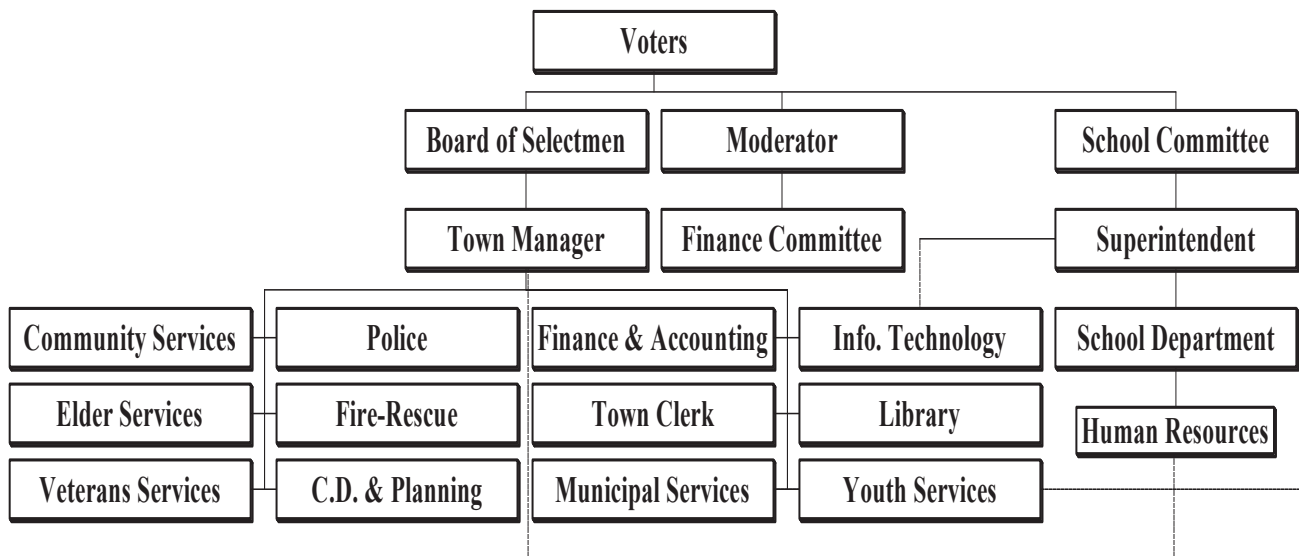
June 30, 2013

Executive Director/CEO

Town of Andover



Organizational Chart



The Mission of the Town of Andover is to ensure the safety, education, and well-being of the community; to be a leader in the delivery of efficient and effective quality services that respond to community needs; to promote the continuous improvement of staff skills and performance; to encourage an environment of trust; to respect cultural and economic diversity; and to preserve the historic character of the community.

Principal Town Officials

Elected Officials

Board of Selectmen

Daniel H. Kowalski, Chairman
Brian P. Major, Vice Chairman
Paul J. Salafia, Secretary
Alexander J. Vispoli
Mary T. O'Donoghue

Town Moderator

Sheila M. Doherty

School Committee

Ann W. Gilbert, Chair
Paula M. Colby-Clements, Vice Chair
David A. Birnbach
Joel G. Blumstein
Barbara A. L'Italien

Appointed Officials

Town Manager
Superintendent of Schools
Town Accountant
Finance Director
Treasurer
Town Assessor
Town Clerk
Fire Chief
Police Chief
Human Resources Director
Library Director
Municipal Services Director

Reginald S. Stapczynski
Dr. Marinel D. McGrath
Theodora Moccia
Donna Walsh
David J. Reilly
David Billard
Lawrence J. Murphy
Michael B. Mansfield
Patrick Keefe
Candace A. Hall-Nourse
Beth H. Mazin
Christopher M. Cronin

This page intentionally left blank.

Financial Section



Fosters Pond



Pomps Pond

Financial Section

This page intentionally left blank.



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Andover, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts as of and for the year ended June 30, 2014 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts, as of June 30, 2014 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2013), and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Andover, Massachusetts' basic financial statements. The introductory section, combining and individual fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, as listed in the table of contents, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Town of Andover, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Andover, Massachusetts' internal control over financial reporting and compliance.



December 10, 2014

Management's Discussion and Analysis

This page intentionally left blank.

Management's Discussion and Analysis

As management of the Town of Andover, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2014. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- At the close of the current year, the Town's general fund reported an ending fund balance of \$19 million which represents 14% of total general fund budgetary basis expenditures.
- The assets and deferred outflows of resources of the Town of Andover exceeded the liabilities at the close of the most recent year by \$137.9 million (net position).
- The Town's noncurrent governmental liabilities (excluding debt) increased by \$6 million, which was primarily due to the recognition of the other postemployment benefits (OPEB) liability.
- The Town's total governmental gross debt (short-term and long-term combined) increased by \$17.5 million during the current year. This was due to the net effect of \$12 million and \$6.7 million in principal payments on short-term and long-term debt, respectively, and the issuance of \$24.2 million of long-term debt for school construction, construction of the youth center, land acquisition and building renovations, and the issuance of \$12 million of short-term debt for school construction.
- The Town's total business-type gross long-term debt increased by \$874,000 during the current year. This was due to the net effect of \$2.7 million in principal payments and the issuance of \$3.5 million of debt for infrastructure improvements.
- The Town's unfunded OPEB liability has decreased by \$69.7 million as a result of favorable per capita cost experience, changes in medical trend and other assumptions and increase in the discount rate from 4.5% to 5.75%. The Town contributed an additional \$1.4 million to the OPEB trust fund in 2014 and at year-end had a net position of \$2.7 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Andover's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, municipal services, community services, library, and interest. The business-type activities include the activities of water and sewer services.

The government-wide financial statements include not only the Town of Andover itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Andover is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. The focus of the Town of Andover's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Andover's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Andover adopts an annual appropriated budget for its general fund. A budget to actual schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health and life insurance, unemployment compensation, workers' compensation, and general liability insurance.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town of Andover's assets and deferred outflows of resources exceeded liabilities by \$137.9 million at the close of 2014, which was an increase of \$6.6 million from the prior year.

Net position of \$159.0 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$10.2 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* has a year-end deficit of \$31.3 million. The primary reason for this deficit balance is the recognition of OPEB liabilities.

At the end of the current year, the Town is able to report positive balances in two of three categories of net position, for the Town as a whole and for its governmental activities. Its business-type activities report positive balances in both categories.

The governmental activity and business-type activity components are presented on the following pages.

Governmental Activities

The Town's assets and deferred outflows of resources exceeded liabilities for governmental activities by \$74.1 million at the close of 2014.

	2014	2013
Assets:		
Current assets.....	\$ 67,482,859	\$ 58,187,485
Noncurrent assets (excluding capital).....	2,852,129	4,339,879
Capital assets.....	178,959,619	153,411,443
Total assets.....	249,294,607	215,938,807
Deferred Outflows of Resources:		
Deferred loss on refunding.....	772,087	972,013
Liabilities:		
Current liabilities (excluding debt).....	12,657,549	11,858,651
Noncurrent liabilities (excluding debt).....	75,974,000	69,924,000
Current debt.....	8,436,834	7,234,452
Noncurrent debt.....	78,888,072	60,862,581
Total liabilities.....	175,956,455	149,879,684
Net Position:		
Net investment in capital assets.....	113,445,872	104,403,021
Restricted.....	10,224,044	9,250,406
Unrestricted.....	(49,559,677)	(46,622,291)
Total net position.....	\$ 74,110,239	\$ 67,031,136

	2014	2013
Program Revenues:		
Charges for services.....	\$ 12,671,455	\$ 12,928,317
Operating grants and contributions.....	27,469,976	27,330,776
Capital grants and contributions.....	10,772,632	9,702,374
General Revenues:		
Real estate and personal property taxes.....	116,416,632	110,652,457
Motor vehicle and other excise taxes.....	6,467,691	6,430,755
Nonrestricted grants.....	2,193,507	2,099,507
Unrestricted investment income.....	164,538	74,364
Other revenues.....	1,295,319	1,405,804
Total revenues.....	177,451,750	170,624,354
Expenses:		
General government.....	10,707,991	9,997,575
Public safety.....	21,952,531	21,349,177
Education.....	115,458,917	111,484,537
Municipal services.....	14,788,432	14,475,054
Community services.....	3,589,067	3,497,572
Library.....	3,411,150	3,291,536
Interest.....	2,102,376	2,180,097
Total expenses.....	172,010,464	166,275,548
Excess (deficiency) before transfers.....	5,441,286	4,348,806
Transfers.....	1,637,817	1,528,260
Change in net position.....	7,079,103	5,877,066
Net position - beginning of year.....	67,031,136	61,154,070
Net position - end of year.....	\$ 74,110,239	\$ 67,031,136

The governmental expenses totaled \$172.0 million of which \$50.9 million (30%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$126.5 million, primarily coming from property taxes, motor vehicle excise and other excise taxes, and non-restricted state aid.

The governmental net position increased by \$7.1 million during the current year. This was primarily due to \$7 million in capital grant revenue from the Massachusetts School Building Authority (the MSBA), \$1.8 million in capital grant revenue from the State for roadway improvements, \$2 million in contributions for the youth center, and a general fund surplus totaling \$3.9 million that is more fully explained on page 24. These increases were offset by decreases due to the timing of grant revenues and expenditures totaling \$1.4 million and the recognition of \$5.5 million of additional OPEB liabilities.

Governmental expenses increased by \$5.7 million. This is primarily due to a \$710,000 increase in general government expenses, a \$4.0 million increase in educational expenses and a \$603,000 increase in public safety expenses. These increases are attributable to increases in the departmental operating budgets and employee benefits.

Business-Type Activities

For the Town's business-type activities, assets and deferred outflows of resources exceeded liabilities by \$63.7 million at the close of 2014.

	2014	2013
Assets:		
Current assets.....	\$ 19,608,685	\$ 15,598,977
Noncurrent assets (excluding capital).....	8,340,934	9,329,183
Capital assets.....	72,993,348	74,652,524
Total assets.....	100,942,967	99,580,684
Deferred outflows of resources:		
Deferred loss on refunding.....	440,397	538,763
Liabilities:		
Current liabilities (excluding debt).....	964,661	498,580
Noncurrent liabilities (excluding debt).....	1,619,000	1,435,000
Current debt.....	3,088,987	2,841,476
Noncurrent debt.....	31,965,329	31,132,892
Total liabilities.....	37,637,977	35,907,948
Net Position:		
Net investment in capital assets.....	45,559,159	45,822,689
Unrestricted.....	18,186,228	18,388,810
Total net position.....	\$ 63,745,387	\$ 64,211,499
Program Revenues:		
Charges for services.....	\$ 11,862,122	\$ 11,485,877
Capital grants and contributions.....	-	42,339
General Revenues:		
Unrestricted investment income.....	25,372	10,245
Total revenues.....	11,887,494	11,538,461
Expenses:		
Water.....	6,950,526	6,363,699
Sewer.....	3,765,263	4,173,881
Total expenses.....	10,715,789	10,537,580
Excess (deficiency) before transfers.....	1,171,705	1,000,881
Transfers.....	(1,637,817)	(1,528,260)
Change in net position.....	(466,112)	(527,379)
Net position - beginning of year.....	64,211,499	64,738,878
Net position - end of year.....	\$ 63,745,387	\$ 64,211,499

Business-type net position of \$45.5 million (71%) represents the investment in capital assets while \$18.2 million (29%) is unrestricted. The Town's business-type net position decreased by \$663,000 in the current year.

The water department net position decreased by \$703,000. This decrease was primarily due to depreciation expense exceeding debt principal payments by \$1.1 million and the annual OPEB cost exceeding the OPEB expense raised in the rates by \$85,000. These decreases were offset by an \$870,000 revenue surplus that primarily related to water rates.

The sewer department net position increased by \$237,000. The increase in net position is mainly due to debt principal payments exceeding depreciation expense by \$718,000 and \$249,000 of sewer appropriations that were

unexpended. These increases were offset by \$966,000 of previously recognized special assessment revenues that were used to balance the operating budget.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the current year, governmental funds reported combined ending fund balances of \$42.9 million which is comprised of \$19 million in the general fund, \$3.3 million in the school projects fund, and \$20.6 million of nonmajor governmental funds. Cumulatively there was a \$7.3 million increase in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$14.6 million, while total fund balance was \$19 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 10% of total general fund budgetary expenditures, while total fund balance represents 14% of that same amount. The general fund experienced an increase of \$3.9 million, which is due to a revenue surplus totaling \$2.6 million, a \$773,000 surplus from debt premiums received, unspent appropriations totaling \$1.9 million and \$500,000 that was raised for the general stabilization fund. These increases were offset by the use of \$2.2 million of free cash to fund supplemental appropriations.

The highway construction fund is used to account for highway construction projects that are reimbursable by the Massachusetts Department of Transportation. In 2014, the Town recorded reimbursable expenditures and capital grant revenue totaling \$962,000.

The school projects fund experienced an increase of \$2.4 million. This increase is due to capital grant revenue from the Massachusetts School Business Authority and proceeds from the issuance of bonds payable exceeding current year construction costs.

The nonmajor funds experienced an increase of \$1 million that was due to the net effect of timing differences between the receipt and expenditure of grant funds and the permanent financing of capital projects.

General Fund Budgetary Highlights

The \$2.2 million increase between the original budget and the final amended budget was due to supplemental appropriations approved at Special Town Meeting to fund snow and ice removal, the purchase of land and building renovations for the Ballardvale fire station, and additional funding for the OPEB and general stabilization funds.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the Town annually prepares a capital budget for the upcoming year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

Major capital events during the current year include the following:

- Governmental activities included additions to construction in progress, buildings and improvements, machinery and equipment, land improvements, infrastructure, vehicles and library books totaling \$32.5 million.
- Business-type activities included additions to construction in progress, machinery and equipment, water and sewer infrastructure and vehicles totaling \$1.4 million.

Debt Administration. The Town of Andover maintains an AAA Bond Rating with Standard & Poor's Investors Service and continues to maintain strong market access for both note and bond sales.

Outstanding long-term debt for governmental activities, as of June 30, 2014, totaled \$82.3 million, of which \$58.5 million is related to school projects, \$10.6 million is for municipal services, \$5.6 million is for land acquisition, \$5.4 million is for public safety projects, and the remaining balance of \$2.2 million is for culture and recreation projects. The Town issued \$24.2 million of governmental long-term general obligation bonds to fund school projects, municipal services, land acquisition, and culture and recreation projects.

The sewer and water enterprise funds have outstanding long-term debt totaling \$21.1 million and \$12.8 million, respectively, at year-end. \$3.5 million was issued in 2014 to fund infrastructure improvements. The debt is fully supported by rates and does not rely on a general fund subsidy.

The Commonwealth of Massachusetts is obligated to provide school construction grants for approved school projects. The grants are paid annually to support future interest expense on school construction related long-term debt and the construction costs funded by that debt. At June 30, 2014, the Town is scheduled to receive \$129,000 of future interest grants and \$4.1 million of capital grants. The payment schedule for the Commonwealth is structured to match the debt service expenditures.

Beginning in 2005, the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of 2014, the Town has recorded capital grant proceeds totaling \$13 million, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$3.6 million of grant proceeds in 2015.

In prior years, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2014, \$4,850,000 of bonds outstanding from the advance refunding transactions is considered defeased.

Please refer to notes 4, 6, and 7 for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Andover's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Offices, 36 Bartlet Street, Andover, Massachusetts 01810.

This page intentionally left blank.

Basic Financial Statements

This page intentionally left blank.

STATEMENT OF NET POSITION

JUNE 30, 2014

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 42,464,455	\$ 14,207,751	\$ 56,672,206
Investments.....	11,434,259	-	11,434,259
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,012,309	-	2,012,309
Tax liens.....	1,315,129	81,617	1,396,746
Motor vehicle and other excise taxes.....	624,646	-	624,646
User fees.....	-	4,586,414	4,586,414
Departmental and other.....	478,710	-	478,710
Special assessments.....	-	732,903	732,903
Intergovernmental.....	8,927,525	-	8,927,525
Tax foreclosures.....	225,826	-	225,826
Total current assets.....	67,482,859	19,608,685	87,091,544
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	203,024	-	203,024
Intergovernmental.....	2,649,105	-	2,649,105
Special assessments.....	-	8,340,934	8,340,934
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	32,532,297	785,818	33,318,115
Depreciable.....	146,427,322	72,207,530	218,634,852
Total noncurrent assets.....	181,811,748	81,334,282	263,146,030
TOTAL ASSETS.....	249,294,607	100,942,967	350,237,574
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding.....	772,087	440,397	1,212,484
LIABILITIES			
CURRENT:			
Warrants payable.....	3,428,424	487,943	3,916,367
Accrued payroll.....	5,416,189	53,680	5,469,869
Tax refunds payable.....	1,324,000	-	1,324,000
Accrued interest.....	850,936	292,411	1,143,347
Customer deposits payable.....	-	9,627	9,627
Landfill closure.....	117,000	-	117,000
Compensated absences.....	1,491,000	121,000	1,612,000
Workers' compensation.....	30,000	-	30,000
Bonds payable.....	8,436,834	3,088,987	11,525,821
Total current liabilities.....	21,094,383	4,053,648	25,148,031
NONCURRENT:			
Landfill closure.....	14,791,000	-	14,791,000
Compensated absences.....	3,344,000	296,000	3,640,000
Workers' compensation.....	268,000	-	268,000
Other postemployment benefits.....	57,571,000	1,323,000	58,894,000
Bonds payable.....	78,888,072	31,965,329	110,853,401
Total noncurrent liabilities.....	154,862,072	33,584,329	188,446,401
TOTAL LIABILITIES.....	175,956,455	37,637,977	213,594,432
NET POSITION			
Net investment in capital assets.....	113,445,872	45,559,159	159,005,031
Restricted for:			
Permanent funds:			
Expendable.....	578,428	-	578,428
Nonexpendable.....	1,261,738	-	1,261,738
Debt service.....	978,024	-	978,024
Grants and gifts.....	7,405,854	-	7,405,854
Unrestricted.....	(49,559,677)	18,186,228	(31,373,449)
TOTAL NET POSITION.....	\$ 74,110,239	\$ 63,745,387	\$ 137,855,626

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary Government:						
<i>Governmental Activities:</i>						
General government.....	\$ 10,707,991	\$ 1,340,342	\$ 340,303	\$ -	\$ (9,027,346)	
Public safety.....	21,952,531	4,879,683	154,719	-	(16,918,129)	
Education.....	115,458,917	4,594,367	26,031,266	7,013,590	(77,819,694)	
Municipal services.....	14,788,432	186,571	351,547	1,774,179	(12,476,135)	
Community services.....	3,589,067	1,665,433	347,854	1,984,863	409,083	
Library.....	3,411,150	5,059	108,949	-	(3,297,142)	
Interest.....	2,102,376	-	135,338	-	(1,967,038)	
Total Governmental Activities.....	172,010,464	12,671,455	27,469,976	10,772,632	(121,096,401)	
<i>Business-Type Activities:</i>						
Water.....	6,950,526	7,405,049	-	-	454,523	
Sewer.....	3,765,263	4,457,073	-	-	691,810	
Total Business-Type Activities.....	10,715,789	11,862,122	-	-	1,146,333	
Total Primary Government.....	\$ 182,726,253	\$ 24,533,577	\$ 27,469,976	\$ 10,772,632	\$ (119,950,068)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (121,096,401)	\$ 1,146,333	\$ (119,950,068)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	116,416,632	-	116,416,632
Tax liens.....	127,902	-	127,902
Motor vehicle excise taxes.....	4,970,746	-	4,970,746
Hotel/motel tax.....	1,496,945	-	1,496,945
Meals tax.....	506,658	-	506,658
Penalties and interest on taxes.....	554,802	-	554,802
Grants and contributions not restricted to specific programs.....	2,193,507	-	2,193,507
Unrestricted investment income.....	164,538	25,372	189,910
Miscellaneous.....	105,957	-	105,957
<i>Transfers, net</i>	1,637,817	(1,637,817)	-
Total general revenues and transfers.....	128,175,504	(1,612,445)	126,563,059
Change in net position.....	7,079,103	(466,112)	6,612,991
<i>Net Position:</i>			
Beginning of year.....	67,031,136	64,211,499	131,242,635
End of year.....	\$ 74,110,239	\$ 63,745,387	\$ 137,855,626

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 16,931,704	\$ -	\$ 4,751,738	\$ 18,987,697	\$ 40,671,139
Investments.....	9,119,572	-	-	2,314,687	11,434,259
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	2,012,309	-	-	-	2,012,309
Real estate tax deferrals.....	203,024	-	-	-	203,024
Tax liens.....	1,315,129	-	-	-	1,315,129
Motor vehicle and other excise taxes.....	624,646	-	-	-	624,646
Departmental and other.....	335,946	-	-	142,764	478,710
Intergovernmental.....	4,116,137	3,420,651	3,606,361	433,481	11,576,630
Tax foreclosures.....	225,826	-	-	-	225,826
TOTAL ASSETS.....	\$ 34,884,293	\$ 3,420,651	\$ 8,358,099	\$ 21,878,629	\$ 68,541,672
LIABILITIES					
Warrants payable.....	\$ 1,153,523	\$ -	\$ 1,401,130	\$ 872,226	\$ 3,426,879
Accrued payroll.....	5,152,656	-	3,841	259,692	5,416,189
Tax refunds payable.....	1,324,000	-	-	-	1,324,000
TOTAL LIABILITIES.....	7,630,179	-	1,404,971	1,131,918	10,167,068
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues.....	8,267,894	3,420,651	3,606,361	138,899	15,433,805
FUND BALANCES					
Nonspendable.....	-	-	-	1,261,738	1,261,738
Restricted.....	978,024	-	3,346,767	19,346,074	23,670,865
Committed.....	2,354,757	-	-	-	2,354,757
Assigned.....	1,049,914	-	-	-	1,049,914
Unassigned.....	14,603,525	-	-	-	14,603,525
TOTAL FUND BALANCES.....	18,986,220	-	3,346,767	20,607,812	42,940,799
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 34,884,293	\$ 3,420,651	\$ 8,358,099	\$ 21,878,629	\$ 68,541,672

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2014

Total governmental fund balances.....	\$ 42,940,799
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	178,959,619
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....	15,433,805
Internal service funds are used by management to account for unemployment, health insurance and workers' compensation activities.	
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....	1,493,771
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(850,936)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable.....	(86,552,819)
Landfill closure.....	(14,908,000)
Compensated absences.....	(4,835,000)
Other postemployment benefits.....	<u>(57,571,000)</u>
Net effect of reporting long-term liabilities.....	<u>(163,866,819)</u>
Net position of governmental activities.....	<u>\$ 74,110,239</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2014

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 116,681,066	\$ -	\$ -	\$ -	\$ 116,681,066
Tax liens.....	471,310	-	-	-	471,310
Motor vehicle excise taxes.....	5,082,290	-	-	-	5,082,290
Hotel/motel tax.....	1,496,945	-	-	-	1,496,945
Meals tax.....	506,658	-	-	-	506,658
Charges for services.....	-	-	-	273,643	273,643
Penalties and interest on taxes.....	554,802	-	-	-	554,802
Fees.....	-	-	-	372,979	372,979
Licenses and permits.....	1,990,689	-	-	-	1,990,689
Intergovernmental.....	25,893,421	961,684	6,140,134	4,633,178	37,628,417
Departmental and other.....	3,116,122	-	-	7,587,799	10,703,921
Contributions.....	-	-	-	2,032,400	2,032,400
Investment income.....	138,777	-	-	63,324	202,101
TOTAL REVENUES.....	155,932,080	961,684	6,140,134	14,963,323	177,997,221
EXPENDITURES:					
Current:					
General government.....	6,947,001	-	143,830	746,149	7,836,980
Public safety.....	14,626,837	-	-	1,494,042	16,120,879
Education.....	69,553,110	-	-	8,792,801	78,345,911
Municipal services.....	10,320,170	961,684	-	218,031	11,499,885
Community services.....	1,741,941	-	-	1,151,542	2,893,483
Library.....	2,523,588	-	-	34,861	2,558,449
Pension benefits.....	18,982,968	-	-	-	18,982,968
Property and liability insurance.....	777,873	-	-	-	777,873
Employee benefits.....	15,600,000	-	-	-	15,600,000
State and county charges.....	2,817,601	-	-	-	2,817,601
Capital outlay.....	-	-	26,012,089	6,293,129	32,305,218
Debt service:					
Principal.....	6,744,500	-	-	-	6,744,500
Interest.....	2,296,280	-	-	-	2,296,280
TOTAL EXPENDITURES.....	152,931,869	961,684	26,155,919	18,730,555	198,780,027
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	3,000,211	-	(20,015,785)	(3,767,232)	(20,782,806)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds.....	-	-	20,967,000	3,275,000	24,242,000
Premium from issuance of bonds.....	773,354	-	1,426,830	-	2,200,184
Transfers in.....	2,882,552	-	-	3,614,000	6,496,552
Transfers out.....	(2,760,000)	-	-	(2,098,735)	(4,858,735)
TOTAL OTHER FINANCING SOURCES (USES)...	895,906	-	22,393,830	4,790,265	28,080,001
NET CHANGE IN FUND BALANCES.....	3,896,117	-	2,378,045	1,023,033	7,297,195
FUND BALANCES AT BEGINNING OF YEAR.....	15,090,103	-	968,722	19,584,779	35,643,604
FUND BALANCES AT END OF YEAR.....	\$ 18,986,220	\$ -	\$ 3,346,767	\$ 20,607,812	\$ 42,940,799

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds.....	\$	7,297,195
---	----	-----------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	32,469,531	
Depreciation expense.....	<u>(6,921,355)</u>	
Net effect of reporting capital assets.....		25,548,176

Revenues in the Statement of Activities that do not provide current financial resources are fully unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue..... (547,023)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Issuance of bonds.....	(24,242,000)	
Debt service principal payments.....	6,744,500	
Amortization of premium from issuance of bonds.....	469,811	
Deferral of premium on bonds	<u>(2,200,184)</u>	
Net effect of reporting long-term debt.....		(19,227,873)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(90,000)	
Net change in accrued interest on long-term debt.....	(75,981)	
Amortization of deferred charges on refunding.....	(199,926)	
Net change in other postemployment benefits.....	(5,542,000)	
Net change in landfill closure liability.....	<u>(466,000)</u>	
Net effect of recording long-term liabilities and amortizing deferred charges on refunding and premiums on bonds.....		(6,373,907)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with governmental activities.....		<u>382,535</u>
--	--	----------------

Change in net position of governmental activities.....	\$	<u><u>7,079,103</u></u>
--	----	-------------------------

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 9,362,133	\$ 4,845,618	\$ 14,207,751	\$ 1,793,316
Receivables, net of allowance for uncollectibles:				
User fees.....	2,882,166	1,704,248	4,586,414	-
Water and sewer liens.....	53,397	28,220	81,617	-
Special assessments.....	-	732,903	732,903	-
Total current assets.....	12,297,696	7,310,989	19,608,685	1,793,316
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Special assessments.....	-	8,340,934	8,340,934	-
Capital assets, net of accumulated depreciation:				
Nondepreciable.....	670,688	115,130	785,818	-
Depreciable.....	34,398,401	37,809,129	72,207,530	-
Total noncurrent assets.....	35,069,089	46,265,193	81,334,282	-
TOTAL ASSETS.....	47,366,785	53,576,182	100,942,967	1,793,316
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on refunding.....	102,426	337,971	440,397	-
LIABILITIES				
CURRENT:				
Warrants payable.....	477,978	9,965	487,943	1,545
Accrued payroll.....	46,845	6,835	53,680	-
Accrued interest.....	118,596	173,815	292,411	-
Other Liabilities.....	-	9,627	9,627	-
Compensated absences.....	109,000	12,000	121,000	-
Workers' compensation.....	-	-	-	30,000
Bonds payable.....	1,050,142	2,038,845	3,088,987	-
Total current liabilities.....	1,802,561	2,251,087	4,053,648	31,545
NONCURRENT:				
Compensated absences.....	264,000	32,000	296,000	-
Workers' compensation.....	-	-	-	268,000
Other postemployment benefits.....	1,132,000	191,000	1,323,000	-
Bonds payable.....	12,314,643	19,650,686	31,965,329	-
Total noncurrent liabilities.....	13,710,643	19,873,686	33,584,329	268,000
TOTAL LIABILITIES.....	15,513,204	22,124,773	37,637,977	299,545
NET POSITION				
Net investment in capital assets.....	26,694,883	18,864,276	45,559,159	-
Unrestricted.....	5,261,124	12,925,104	18,186,228	1,493,771
TOTAL NET POSITION.....	\$ 31,956,007	\$ 31,789,380	\$ 63,745,387	\$ 1,493,771

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<u>OPERATING REVENUES:</u>				
Employee contributions.....	\$ -	\$ -	\$ -	\$ 3,882,288
Employer contributions.....	-	-	-	14,243,159
Charges for services.....	7,405,049	4,457,073	11,862,122	-
Intergovernmental.....	-	-	-	480,864
TOTAL OPERATING REVENUES.....	7,405,049	4,457,073	11,862,122	18,606,311
<u>OPERATING EXPENSES:</u>				
Cost of services and administration.....	4,359,876	1,797,640	6,157,516	-
Depreciation.....	1,832,905	1,207,135	3,040,040	-
Employee benefits.....	-	-	-	18,194,193
Property and liability insurance.....	-	-	-	31,135
TOTAL OPERATING EXPENSES.....	6,192,781	3,004,775	9,197,556	18,225,328
OPERATING INCOME (LOSS).....	1,212,268	1,452,298	2,664,566	380,983
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Investment income.....	11,465	13,907	25,372	1,552
Interest expense.....	(307,745)	(760,488)	(1,068,233)	-
Claims and judgments.....	(450,000)	-	(450,000)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(746,280)	(746,581)	(1,492,861)	1,552
INCOME (LOSS) BEFORE TRANSFERS.....	465,988	705,717	1,171,705	382,535
<u>TRANSFERS:</u>				
Transfers out.....	(1,169,422)	(468,395)	(1,637,817)	-
CHANGE IN NET POSITION.....	(703,434)	237,322	(466,112)	382,535
NET POSITION AT BEGINNING OF YEAR.....	32,659,441	31,552,058	64,211,499	1,111,236
NET POSITION AT END OF YEAR.....	\$ 31,956,007	\$ 31,789,380	\$ 63,745,387	\$ 1,493,771

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 7,382,230	\$ 4,418,924	\$ 11,801,154	\$ 3,882,288
Receipts from interfund services provided.....	-	-	-	14,243,159
Receipts from other governments.....	-	-	-	480,864
Payments to vendors.....	(2,314,732)	(1,505,406)	(3,820,138)	(31,135)
Payments to employees.....	(1,810,416)	(310,949)	(2,121,365)	(92,706)
Payments for interfund services used.....	-	-	-	(18,150,742)
NET CASH FROM OPERATING ACTIVITIES.....	3,257,082	2,602,569	5,859,651	331,728
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out.....	(1,169,422)	(468,395)	(1,637,817)	-
Claims and judgments.....	(450,000)	-	(450,000)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,619,422)	(468,395)	(2,087,817)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	3,549,000	-	3,549,000	-
Premium from the issuance of bonds and notes.....	372,426	-	372,426	-
Acquisition and construction of capital assets.....	(743,050)	(233,143)	(976,193)	-
Principal payments on bonds and notes.....	(749,629)	(1,925,500)	(2,675,129)	-
Special assessments.....	-	1,016,979	1,016,979	-
Interest expense.....	(279,704)	(827,304)	(1,107,008)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	2,149,043	(1,968,968)	180,075	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income.....	11,465	13,907	25,372	1,552
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	3,798,168	179,113	3,977,281	333,280
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	5,563,965	4,666,505	10,230,470	1,460,036
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 9,362,133	\$ 4,845,618	\$ 14,207,751	\$ 1,793,316
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 1,212,268	\$ 1,452,298	\$ 2,664,566	\$ 380,983
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,832,905	1,207,135	3,040,040	-
Changes in assets and liabilities:				
Water and sewer liens.....	(36,058)	(20,789)	(56,847)	-
User fees.....	13,239	(17,549)	(4,310)	-
Warrants payable.....	15,536	5,420	20,956	(8,255)
Accrued payroll.....	13,192	(1,135)	12,057	-
Other postemployment benefits.....	162,000	2,000	164,000	-
Liabilities due depositors.....	-	189	189	-
Accrued compensated absences.....	44,000	(25,000)	19,000	-
Workers' compensation.....	-	-	-	(41,000)
Total adjustments.....	2,044,814	1,150,271	3,195,085	(49,255)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,257,082	\$ 2,602,569	\$ 5,859,651	\$ 331,728

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 647,109	\$ -	\$ 156,058	\$ 1,200,133
Investments:				
PRIT funds.....	108,682,108	2,708,978	-	-
Government sponsored enterprises.....	-	-	1,508,410	-
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	5,184	-	-	-
TOTAL ASSETS.....	109,334,401	2,708,978	1,664,468	1,200,133
LIABILITIES				
Liabilities due depositors.....	-	-	-	1,200,133
NET POSITION				
Restricted for pension benefits.....	109,334,401	-	-	-
Held in trust for OPEB benefits.....	-	2,708,978	-	-
Held in trust for other purposes.....	-	-	1,664,468	-
	\$ 109,334,401	2,708,978	\$ 1,664,468	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 5,814,431	\$ 1,402,440	\$ -
Employee.....	3,418,958	-	-
Total contributions.....	9,233,389	1,402,440	-
Net investment income (loss):			
Net change in fair value of investments.....	11,750,514	-	279,901
Interest.....	2,957,647	204,870	2,466
Total investment income (loss).....	14,708,161	204,870	282,367
Less: investment expense.....	(568,544)	-	-
Net investment income (loss).....	14,139,617	204,870	282,367
Intergovernmental.....	91,280	-	-
Transfers from other systems.....	687,989	-	-
TOTAL ADDITIONS.....	24,152,275	1,607,310	282,367
DEDUCTIONS:			
Administration.....	209,272	-	-
Transfers to other systems.....	489,496	-	-
Retirement benefits and refunds.....	11,006,431	-	-
Educational scholarships.....	-	-	44,694
TOTAL DEDUCTIONS.....	11,705,199	-	44,694
CHANGE IN NET POSITION.....	12,447,076	1,607,310	237,673
NET POSITION AT BEGINNING OF YEAR.....	96,887,325	1,101,668	1,426,795
NET POSITION AT END OF YEAR.....	\$ 109,334,401	\$ 2,708,978	\$ 1,664,468

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Andover, Massachusetts (Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Board of Selectmen (Board).

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated and governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint venture with other municipalities to pool resources and share the costs, risks, and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Greater Lawrence Regional Technical Vocational School (GLRTVS)

The GLRTVS is governed by a seven member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the GLRTVS' debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town does not have an equity interest in the GLRTVS. For the year ended June 30, 2014, the Town's assessment totaled \$330,974. Separate financial statements may be obtained by writing to the Treasurer of the GLRTVS at 57 River Road, Andover, MA 01810.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of the relationship between the Town and the component unit.

The Andover Contributory Retirement System (System) was established to provide retirement benefits to Town employees, the Andover Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System's participants, one member appointed by the Town Manager and one member appointed by the other board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows or resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital leases are reported as other financing sources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *highway construction* fund is used to account for roadway improvements funded through the Massachusetts Department of Transportation.

The *school projects* fund is used to account for major school capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes, state grants, and other available funds.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health and life insurance, unemployment compensation, workers' compensation and general liability insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, except for agency funds which have no measurement focus. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *other postemployment benefit trust fund* accumulates resources to provide funding for future OPEB (other postemployment benefits) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings. The Town's educational scholarships are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity. The Town accounts for contractor's security deposits, local church deposits and receipts and disbursements on behalf of the Merrimack Valley Library Consortium in this fund.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes, and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the year they are processed.

Tax liens may be subject to a foreclosure if the tax liens are not paid in accordance with the period required by the law (M.G.L. Ch.60, §50). Foreclosure proceedings are processed by the Treasurer or other tax lien custodian. Foreclosed properties can then be sold through advertised public auction or held for use by the Town.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and are included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of police details, fire details and ambulance receivables and are recorded as receivables in the year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Special Assessments

Special assessments consist of sewer betterments levied on properties that have benefited by capital improvements to the Town's sewer system. The sewer betterment assessment is a one-time tax that can be paid in one lump sum or apportioned up to a maximum of twenty (20) years and is primarily designed to pay back all or a portion of the debt service associated with the sewer project.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories*Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, library books and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year. Capital assets (excluding land and construction-in-progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and building improvements.....	5-50
Machinery and equipment.....	3-20
Vehicles.....	5
Library books.....	10
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

H. Deferred Outflows/Inflows of Resources*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has reported deferred charges on refunding as deferred outflows of resources in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town does not have any items that qualify for reporting in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has reported unavailable revenues from property taxes as deferred inflows of resources in this category.

I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Net position has been “restricted for” the following:

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Debt service” represents the amount accumulated for the future payment of general obligation bond principal and interest.

“Grants and gifts” represents assets that have restrictions placed on them from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town Meeting is the highest level of decision-making authority for the government that can, by adoption of an article, which constitutes the most binding restraint, prior to the end of the year, commit fund balance. Once adopted, the limitation imposed by the article remains in place until a similar action is taken to remove or revise the limitation.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Selectmen has by resolution authorized the Town Accountant to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported gross of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Compensated absences are reported in governmental funds only if they have matured.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

O. Fund Deficits

The workers compensation fund has a deficit of \$194,335 that will be funded by future employer contributions.

P. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

Q. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit (CD's), repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Andover's deposits may not be returned to it. The Town's policy allows unlimited deposits in bank accounts or CD's (up to one year maturity) that are fully collateralized through a third party agreement. For uncollateralized bank accounts and CD's, deposits may not exceed Federal Deposit Insurance Corporation (FDIC) or other deposit insurance coverage unless the bank has received the highest bank rating as determined by a recognized bank rating firm.

These deposits will be limited to no more than 5% of an institution's assets and no more than 10% of the Town's cash. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. CD's will be purchased for no more than three months and will be reviewed frequently. The Town's policy also allows unlimited investments in money market funds, which are allowed by statute and are considered to be liquid funds.

At year-end, the carrying amount of deposits totaled \$54,884,455 and the bank balance totaled \$56,714,625. Of the bank balance, \$1,711,310 was covered by Federal Depository Insurance and \$55,003,315 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2013, the carrying amount of deposits for the Retirement System totaled \$647,109 and the bank balance totaled \$664,835. The bank balance was covered by Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

As of June 30, 2014, the Town of Andover had the following investments:

		Investment Maturities (in years)	
Investment Type	Fair Value	Less Than 1	1 to 5
<u>Debt Securities:</u>			
Government agencies.....	\$ 365,053	\$ -	\$ 365,053
Government sponsored enterprises.....	9,699,208	2,530,627	7,168,581
Corporate bonds.....	<u>1,445,949</u>	<u>1,445,949</u>	<u>-</u>
Total debt securities.....	11,510,210	<u>\$ 3,976,576</u>	<u>\$ 7,533,634</u>
<u>Other Investments:</u>			
Money market mutual funds.....	1,106,476		
Equity securities.....	278,168		
Equity mutual funds.....	3,863,269		
MMDT.....	<u>2,037,466</u>		
Total investments.....	<u>\$ 18,795,589</u>		

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the investments of \$365,053 in government agencies, \$9,699,208 in government sponsored enterprises, \$1,445,949 in corporate bonds and \$278,168 in equity securities, the Town has a custodial credit risk exposure of \$11,788,378 because the related securities are uninsured, unregistered and held by the counterparty. The Town's policy requires all securities, not held directly by the Town, to be held in the Town's name and tax identification number by a third party custodian approved by the Treasurer.

The System does not have any investments subject to custodial credit risk. The System does not have an investment policy for custodial credit risk.

Interest Rate Risk

The Town's investment policy limits investment maturities to one year, except for the trust funds which are not limited, as a means of managing its exposure to fair value losses arising from increasing interest rates. The System does not have formal investment policies that limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

As of December 31, 2013, the Retirement System had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
PRIT.....	\$ <u>108,682,108</u>

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .25 to 10.78 years.

Credit Risk

The Town's investment policy limits investments in debt securities to United States Treasuries and Agency obligations, which carry a AA+ rating and other investments that must be in high grade securities, a high concentration of which must be rated A and above. Standard & Poor's Investors Service rated the \$1,445,949 of corporate bonds AA+; \$2,037,466 of MMDT shares, \$1,106,476 of money market mutual funds and \$3,863,269 of equity mutual funds were unrated.

The Retirement System has not adopted a formal policy related to Credit Risk and \$108,682,108 of PRIT shares were unrated.

Concentration of Credit Risk

The Town will minimize the concentration of credit risk by diversifying the investment portfolio, so that the impact of potential losses from any one type of security or issuer will be minimized. No more than 5% of the Town's investments are invested in any one issuer.

The System places no limit on the amount the System may invest in any one issuer. The System did not have any investments that were subject to concentration of credit risk.

NOTE 3 – RECEIVABLES

At June 30, 2014, receivables for the individual major and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 2,012,309	\$ -	\$ 2,012,309
Real estate tax deferrals.....	203,024	-	203,024
Tax liens.....	1,315,129	-	1,315,129
Motor vehicle and other excise taxes.....	852,077	(227,431)	624,646
Departmental and other.....	534,710	(56,000)	478,710
Intergovernmental.....	11,576,630	-	11,576,630
Total.....	<u>\$ 16,493,879</u>	<u>\$ (283,431)</u>	<u>\$ 16,210,448</u>

At June 30, 2014, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user fees.....	\$ 2,882,166	\$ -	\$ 2,882,166
Sewer user fees.....	1,704,248	-	1,704,248
Water liens.....	53,397	-	53,397
Sewer liens.....	28,220	-	28,220
Sewer special assessments.....	9,073,837	-	9,073,837
Total.....	<u>\$ 13,741,868</u>	<u>\$ -</u>	<u>\$ 13,741,868</u>

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 1,447,186	\$ -	\$ 1,447,186
Real estate tax deferrals.....	203,024	-	203,024
Tax liens.....	1,315,129	-	1,315,129
Motor vehicle and other excise.....	624,646	-	624,646
Departmental.....	335,946	138,899	474,845
Intergovernmental.....	4,116,137	7,027,012	11,143,149
Tax foreclosure.....	225,826	-	225,826
Total.....	<u>\$ 8,267,894</u>	<u>\$ 7,165,911</u>	<u>\$ 15,433,805</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 29,903,293	\$ -	\$ -	\$ 29,903,293
Construction in progress.....	21,503,493	2,377,794	(21,252,283)	2,629,004
Total capital assets not being depreciated.....	51,406,786	2,377,794	(21,252,283)	32,532,297
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	140,038,634	42,103,432	-	182,142,066
Machinery and equipment.....	12,052,695	985,955	-	13,038,650
Land improvements.....	20,784,162	5,959,627	-	26,743,789
Infrastructure.....	37,993,549	1,414,462	-	39,408,011
Vehicles.....	6,039,861	549,546	-	6,589,407
Library books.....	6,807,770	330,998	-	7,138,768
Total capital assets being depreciated.....	223,716,671	51,344,020	-	275,060,691
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(75,382,679)	(3,211,703)	-	(78,594,382)
Machinery and equipment.....	(8,355,235)	(990,950)	-	(9,346,185)
Land improvements.....	(5,767,714)	(1,021,599)	-	(6,789,313)
Infrastructure.....	(23,066,068)	(884,524)	-	(23,950,592)
Vehicles.....	(3,931,102)	(514,069)	-	(4,445,171)
Library books.....	(5,209,216)	(298,510)	-	(5,507,726)
Total accumulated depreciation.....	(121,712,014)	(6,921,355)	-	(128,633,369)
Total capital assets being depreciated, net.....	102,004,657	44,422,665	-	146,427,322
Total governmental activities capital assets, net.....	\$ 153,411,443	\$ 46,800,459	\$ (21,252,283)	\$ 178,959,619

	Beginning Balance	Increases	Decreases	Ending Balance
Water Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 266,017	\$ -	\$ -	\$ 266,017
Construction in progress.....	-	404,671	-	404,671
Total capital assets not being depreciated.....	266,017	404,671	-	670,688
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	40,000	-	-	40,000
Machinery and equipment.....	2,858,087	13,119	-	2,871,206
Land improvements.....	883,276	-	-	883,276
Infrastructure.....	81,341,770	729,931	-	82,071,701
Vehicles.....	282,173	-	(52,417)	229,756
Total capital assets being depreciated.....	85,405,306	743,050	(52,417)	86,095,939
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(40,000)	-	-	(40,000)
Machinery and equipment.....	(840,515)	(120,615)	-	(961,130)
Land improvements.....	(94,821)	(23,395)	-	(118,216)
Infrastructure.....	(48,732,265)	(1,661,744)	-	(50,394,009)
Vehicles.....	(209,449)	(27,151)	52,417	(184,183)
Total accumulated depreciation.....	(49,917,050)	(1,832,905)	52,417	(51,697,538)
Total capital assets being depreciated, net.....	35,488,256	(1,089,855)	-	34,398,401
Total water business-type activities capital assets, net.....	\$ 35,754,273	\$ (685,184)	\$ -	\$ 35,069,089
	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 115,130	\$ -	\$ -	\$ 115,130
Construction in progress.....	34,526	-	(34,526)	-
Total capital assets not being depreciated.....	149,656	-	(34,526)	115,130
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	1,281,181	40,639	-	1,321,820
Machinery and equipment.....	1,168,123	-	-	1,168,123
Infrastructure.....	53,044,805	159,654	-	53,204,459
Vehicles.....	280,765	67,376	-	348,141
Total capital assets being depreciated.....	55,774,874	267,669	-	56,042,543
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(1,011,837)	(37,837)	-	(1,049,674)
Machinery and equipment.....	(300,694)	(57,513)	-	(358,207)
Infrastructure.....	(15,659,163)	(1,051,142)	-	(16,710,305)
Vehicles.....	(54,585)	(60,643)	-	(115,228)
Total accumulated depreciation.....	(17,026,279)	(1,207,135)	-	(18,233,414)
Total capital assets being depreciated, net.....	38,748,595	(939,466)	-	37,809,129
Total sewer business-type activities capital assets, net.....	\$ 38,898,251	\$ (939,466)	\$ (34,526)	\$ 37,924,259

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$ 331,525
Public safety.....	801,493
Education.....	3,948,897
Municipal services.....	1,330,413
Community services.....	139,607
Library.....	<u>369,420</u>

Total depreciation expense - governmental activities..... \$ 6,921,355

Business-Type Activities:

Water.....	\$ 1,832,905
Sewer.....	<u>1,207,135</u>

Total depreciation expense - business-type activities..... \$ 3,040,040

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014, are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 2,760,000	2,760,000 (1)
Nonmajor Governmental Funds.....	1,274,735	824,000	2,098,735 (2)
Water Enterprise Fund.....	1,154,422	15,000	1,169,422 (3)
Sewer Enterprise Fund.....	<u>453,395</u>	<u>15,000</u>	<u>468,395 (3)</u>
Total.....	\$ <u>2,882,552</u>	\$ <u>3,614,000</u>	\$ <u>6,496,552</u>

- (1) Budgeted transfers to the capital projects fund for current year capital articles.
- (2) Budgeted transfers from the Wetland Filing Fees, Off Street Parking, Cable TV, and Verizon funds to the general fund. Also includes transfers from the C.D. Wood trust fund to the Elder Services Stabilization fund, a transfer from Off Street Parking Receipts to the Off Street capital projects fund, and a transfer from the Spring Grove Cemetery trust fund to the Spring Grove Cemetery maintenance fund.
- (3) Budgeted transfers of indirect costs to the general fund.

NOTE 6 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the short-term debt activity for the year ended June 30, 2014, is as follows:

Governmental Funds				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2013	Renewed/ Issued	Retired/ Redeemed	June 30, 2014
BAN	Bancroft school.....	0.75	03/07/14	\$ -	\$ 12,000,000	\$ 12,000,000	\$ -

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In prior years, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2014, \$4,850,000 of bonds outstanding from the advance refunding transactions is considered defeased.

Details related to the outstanding indebtedness at June 30, 2014, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Public safety.....	2029	\$ 2,353,500	2.00 - 5.00	\$ 6,248,300	\$ -	\$ 840,500	\$ 5,407,800 (1)
School projects.....	2034	2,400,000	2.00 - 5.72	41,890,699	20,967,000	4,324,000	58,533,699 (1)
Municipal services.....	2034	700,000	2.75 - 5.13	11,221,000	500,000	1,130,000	10,591,000 (2)
Land acquisition.....	2034	505,000	3.50 - 5.98	5,242,100	775,000	415,000	5,602,100 (1)
Culture and recreation.....	2034	22,690,000	2.75 - 5.00	200,000	2,000,000	35,000	2,165,000 (1)
Total governmental bonds payable.....				64,802,099	24,242,000	6,744,500	82,299,599
Add: unamortized premium.....				3,294,934	2,200,184	469,811	5,025,307
Total governmental bonds payable, net.....				\$ 68,097,033	\$ 26,442,184	\$ 7,214,311	\$ 87,324,906

(1) Debt issued to finance Town capital expenditures.

(2) Debt issued to finance Town capital expenditures with the exception of \$1.7 million for landfill closure.

Debt service requirements for principal and interest for governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2015.....	\$ 7,773,640	\$ 3,025,307	\$ 10,798,947
2016.....	7,697,019	2,755,680	10,452,699
2017.....	6,681,193	2,482,864	9,164,057
2018.....	5,741,825	2,252,835	7,994,660
2019.....	5,567,266	2,016,044	7,583,310
2020.....	5,232,716	1,806,474	7,039,190
2021.....	5,033,175	1,601,887	6,635,062
2022.....	4,598,643	1,402,104	6,000,747
2023.....	4,124,120	1,215,569	5,339,689
2024.....	3,704,608	1,052,287	4,756,895
2025.....	3,630,355	896,716	4,527,071
2026.....	3,545,612	742,519	4,288,131
2027.....	3,256,129	621,094	3,877,223
2028.....	3,086,657	506,885	3,593,542
2029.....	2,732,196	408,232	3,140,428
2030.....	2,427,745	323,138	2,750,883
2031.....	2,278,306	246,177	2,524,483
2032.....	2,113,878	175,517	2,289,395
2033.....	1,919,461	111,339	2,030,800
2034.....	1,155,055	45,000	1,200,055
Totals.....	\$ 82,299,599	\$ 23,687,665	\$ 105,987,264

Bonds Payable Schedule – Enterprise Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Sewer projects.....	2033	\$ 200,000	2.75 - 5.00	\$ 23,004,850	\$ -	\$ 1,925,500	\$ 21,079,350 (1)
Water projects.....	2034	473,000	2.00 - 5.61	9,991,247	3,549,000	749,629	12,790,618 (1)
Total enterprise bonds payable.....				32,996,097	3,549,000	2,675,129	33,869,968
Add: unamortized premium.....				978,271	372,426	166,349	1,184,348
Total enterprise bonds payable, net.....				\$ 33,974,368	\$ 3,921,426	\$ 2,841,478	\$ 35,054,316

(1) Debt issued to finance Town capital expenditures.

Debt service requirements for principal and interest for enterprise fund bonds payable in future years are as follows:

Year	Principal	Interest	Total
2015.....	\$ 2,892,070	\$ 1,172,390	\$ 4,064,460
2016.....	2,878,563	1,073,733	3,952,296
2017.....	2,844,956	970,736	3,815,692
2018.....	2,825,004	872,424	3,697,428
2019.....	2,820,358	765,358	3,585,716
2020.....	2,855,819	654,108	3,509,927
2021.....	2,846,391	552,170	3,398,561
2022.....	2,767,076	451,836	3,218,912
2023.....	2,282,876	360,579	2,643,455
2024.....	2,053,792	287,503	2,341,295
2025.....	1,529,579	221,906	1,751,485
2026.....	1,430,987	166,449	1,597,436
2027.....	1,437,268	116,088	1,553,356
2028.....	822,238	75,161	897,399
2029.....	427,991	52,660	480,651
2030.....	270,000	38,460	308,460
2031.....	270,000	29,960	299,960
2032.....	245,000	21,406	266,406
2033.....	225,000	13,796	238,796
2034.....	145,000	5,800	150,800
Totals.....	\$ 33,869,968	\$ 7,902,524	\$ 41,772,492

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2014, \$1,551,000 of such assistance was received; \$4,245,000 will be received in future years. Of this amount, \$135,000 represents reimbursement of long-term interest costs, and \$4,116,000 represents reimbursement of approved construction costs. Accordingly, a \$4,116,000 intergovernmental receivable and corresponding deferred inflow of resources - unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

Beginning in 2005 the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of 2014, the Town has recorded capital grant proceeds totaling \$13.0 million, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$3.6 million of grant proceeds in 2015.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2014, the Town had the following authorized and unissued debt:

Purpose	Amount
Land acquisition.....	\$ 1,200,000
Landfill.....	7,570,000
Technology.....	500,000
Public works.....	500,000
School projects.....	8,677,678
Sewer projects.....	2,550,000
Water projects.....	1,640,000
Total.....	<u>\$ 22,637,678</u>

Changes in Long-term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-term bonds payable.....	\$ 64,802,099	\$ 24,242,000	\$ (6,744,500)	\$ 82,299,599	\$ 7,773,640
Add: unamortized premium.....	3,294,934	2,200,184	(469,811)	5,025,307	663,194
Total bonds payable.....	68,097,033	26,442,184	(7,214,311)	87,324,906	8,436,834
Other postemployment benefits.....	52,029,000	5,542,000	-	57,571,000	-
Workers' compensation.....	339,000	27,000	(68,000)	298,000	30,000
Compensated absences.....	4,745,000	1,581,000	(1,491,000)	4,835,000	1,491,000
Landfill closure.....	14,442,000	502,000	(36,000)	14,908,000	117,000
Total governmental activity long-term liabilities.....	<u>\$ 139,652,033</u>	<u>\$ 34,094,184</u>	<u>\$ (8,809,311)</u>	<u>\$ 164,936,906</u>	<u>\$ 10,074,834</u>
Business-Type Activities:					
Long-term bonds payable.....	\$ 32,996,097	\$ 3,549,000	\$ (2,675,129)	\$ 33,869,968	\$ 2,892,070
Add: unamortized premium.....	978,271	372,426	(166,349)	1,184,348	196,917
Total bonds payable.....	33,974,368	3,921,426	(2,841,478)	35,054,316	3,088,987
Other postemployment benefits.....	1,159,000	164,000	-	1,323,000	-
Compensated absences.....	398,000	140,000	(121,000)	417,000	121,000
Total business-type activity long-term liabilities.....	<u>\$ 35,531,368</u>	<u>\$ 4,225,426</u>	<u>\$ (2,962,478)</u>	<u>\$ 36,794,316</u>	<u>\$ 3,209,987</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above and include accrued liabilities totaling \$298,000 for workers' compensation. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund and the business-type activities long-term liabilities are generally liquidated by the applicable enterprise fund.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

Massachusetts General Law Ch. 40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year-end, the balance of the general stabilization fund totaled \$6,216,413 and is reported as unassigned fund balance within the General Fund. During 2014, the Town established additional stabilization funds for elder services, landfill closure, and debt service which totaled \$700,000, \$1,002,237 and \$601,342, respectively. These stabilization funds have been reported as components of committed fund balance.

As of June 30, 2014, the governmental fund balances consisted of the following:

	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Cemetery.....	\$ -	\$ -	\$ 870,109	\$ 870,109
Library.....	-	-	350,826	350,826
Town welfare/other.....	-	-	40,803	40,803
Restricted for:				
Town grants/other revolving.....	-	-	4,816,163	4,816,163
School grants/other revolving.....	-	-	2,981,524	2,981,524
School projects.....	-	3,346,767	-	3,346,767
School lunch.....	-	-	393,337	393,337
Road/drainage projects.....	-	-	3,349,523	3,349,523
Conservation.....	-	-	45,285	45,285
Youth Center.....	-	-	2,699,100	2,699,100
Municipal buildings.....	-	-	922,643	922,643
Other.....	-	-	3,560,071	3,560,071
Cemetery.....	-	-	227,375	227,375
Library.....	-	-	158,008	158,008
Town welfare/other.....	-	-	193,045	193,045
Debt service.....	978,024	-	-	978,024
Committed to:				
General government.....	35,947	-	-	35,947
Community services.....	15,231	-	-	15,231
Elder services stabilization.....	700,000	-	-	700,000
Landfill closure stabilization.....	1,002,237	-	-	1,002,237
Debt service stabilization.....	601,342	-	-	601,342
Assigned to:				
General government.....	236,771	-	-	236,771
Public safety.....	147,711	-	-	147,711
Education.....	424,478	-	-	424,478
Municipal services.....	220,454	-	-	220,454
Community services.....	17,194	-	-	17,194
Library.....	2,806	-	-	2,806
Property and liability insurance.....	500	-	-	500
Unassigned.....	14,603,525	-	-	14,603,525
TOTAL FUND BALANCES.....	\$ 18,986,220	\$ 3,346,767	\$ 20,607,812	\$ 42,940,799

NOTE 9 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. In addition, the Town is self-insured for damages not covered by commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town participates in premium-based health care plans for its active employees and retirees. The Town is self-insured for its workers' compensation and unemployment compensation activities. Settlements have not exceeded coverage for each of the past three years. These activities are accounted for in the Town's internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. The incurred but not reported liability related to unemployment claims is immaterial and therefore not recorded.

Workers' Compensation

The Town participates in a Retrospective Rating Plan for which the Town employs a third party administrator. Workers' compensation claims are administered by the third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2014, the amount of the liability for workers' compensation claims totaled \$298,000. Changes in the reported liability since July 1, 2012, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End	Current Portion
Year 2013.....	346,000	109,000	(116,000)	339,000	34,000
Year 2014.....	339,000	27,000	(68,000)	298,000	30,000

NOTE 10 – PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$13,236,744 for the year ended June 30, 2014, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Andover Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

At December 31, 2013, the System's membership consists of the following:

Active members.....	734
Inactive members.....	133
Disabled members.....	37
Retirees and beneficiaries currently receiving benefits.....	<u>370</u>
Total.....	<u><u>1,274</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding years

apportionment of the annual pension cost between the two employers required the Town to contribute 99%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$5,746,224, \$5,495,131, and \$5,085,067, respectively, which equaled its required contribution for each year. At June 30, 2014, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases ranging from 7.00% decreasing to 4.75% after 9 years of service for group 1, ranging from 7.00% decreasing to 5.00% after 7 years of service for group 2, and ranging from 8.00% decreasing to 5.25% after 8 years for group 4 employees. The actuarial value of the System's assets is determined in accordance with the deferred recognition method. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an increasing basis. The remaining amortization period at June 30, 2014, was 26 years. The System is scheduled to be fully funded by 2040 which meets the MGL requirement of full funding. The Town's funded rate was 50% as of the most recent actuarial valuation.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 95,692	\$ 192,534	\$ 96,842	50%	\$ 34,436	281%
01/01/10	92,289	167,447	75,158	55%	32,416	232%
01/01/07	99,953	136,899	36,946	73%	30,468	121%
01/01/04	81,431	104,232	22,801	78%	27,551	83%
01/01/01	69,752	86,928	17,176	80%	24,596	70%
01/01/99	59,350	76,915	17,565	77%	21,631	81%

Funding progress is reported based on the actuarial valuation performed by the System. The Town is responsible for approximately 99% of the unfunded liability.

The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that ceased operations in 1973. The Town has reflected \$14.9 million as the estimate of the landfill closure liability at June 30, 2014, in the government-wide financial statements governmental activities.

This amount is based on estimates of what it would cost to perform all future closure and post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Andover administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance and life insurance for eligible retirees and their spouses through the Town’s group health and life insurance plans, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan.

Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes a variable portion of the cost of current-year premiums, which varies by plan, for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining portion of their premium costs.

The Commonwealth of Massachusetts passed legislation that has allowed the Town to establish the postemployment benefit trust fund to begin pre-funding its OPEB liabilities. During 2014, the Town contributed an additional \$1,402,000 to pre-fund future OPEB obligations.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 12,030,000
Interest on net OPEB obligation.....	3,058,000
Adjustment to annual required contribution.....	<u>(2,372,000)</u>
Annual OPEB cost (expense).....	12,716,000
Contributions made.....	<u>(7,010,000)</u>
Increase in net OPEB obligation.....	5,706,000
Net OPEB obligation-beginning of year.....	<u>53,188,000</u>
Net OPEB obligation-end of year.....	<u>\$ 58,894,000</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 12,716,000	\$ 55%	\$ 58,894,000
6/30/2013	12,025,000	46%	53,188,000
6/30/2012	16,888,000	36%	46,656,000

Funded Status and Funding Progress – As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$145.9 million. The Town funded \$1.1 million, which resulted in a funded ratio of 0.8%. The unfunded actuarial accrued liability for benefits totaled \$144.8 million and the covered payroll totaled \$87.6 million. Accordingly, the unfunded actuarial accrued liability was 165.3% of covered payroll.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress and employer contributions, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 5.75% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, an inflation rate of 3.75%, and an annual medical care inflation rate of 8.5% initially, graded to 5% over 7 years. The UAAL is being amortized over a 30-year period, using the level percentage of projected payroll method, on an open basis, with amortization payments increasing at 3.75% per year. The remaining amortization period at June 30, 2014 is 30 years.

NOTE 13 – COMMITMENTS

The Town has contracted with Allied Waste (formerly BFI) for refuse collection and hauling through June 30, 2015. The 2014 cost to the Town under the Allied contract is approximately \$949,000.

The Town has contracted with Integrated Paper for recycling collection and hauling through June 30, 2015. The 2014 cost to the Town under the Integrated Paper contract is approximately \$343,000.

The Town has entered into or is planning to enter into contracts totaling approximately \$49.5 million for the construction of the new Bancroft elementary school. The Town has expended approximately \$41.4 million as of June 30, 2014 towards completion of the project.

The Town has entered into or is planning to enter into contracts totaling approximately \$4.2 million for the construction of various water and sewer infrastructure projects.

NOTE 14 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2014, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. The implementation of this pronouncement required certain items previously reported as assets and liabilities to be reported as deferred inflows and deferred outflows of resources. Additionally, the notes to the basic financial statements were modified to provide additional disclosures related to deferred inflows and deferred outflows of financial resources.
- GASB Statement #67, *Financial Reporting for Pension Plans*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

Required Supplementary Information

This page intentionally left blank.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts				
	Original Budget	Final Budget	Actual Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 116,524,697	\$ 116,524,697	\$ 116,871,680	\$ -	\$ 346,983
Tax liens.....	-	-	471,310	-	471,310
Motor vehicle excise taxes.....	4,550,000	4,550,000	5,082,290	-	532,290
Hotel/motel tax.....	1,407,000	1,407,000	1,496,945	-	89,945
Meals tax.....	527,500	527,500	506,658	-	(20,842)
Penalties and interest on taxes.....	400,000	400,000	554,802	-	154,802
Licenses and permits.....	1,679,000	1,679,000	1,990,689	-	311,689
Intergovernmental.....	12,235,726	12,235,726	12,656,677	-	420,951
Departmental and other.....	2,875,930	2,875,930	3,116,122	-	240,192
Investment income.....	35,000	35,000	67,401	-	32,401
 TOTAL REVENUES.....	 140,234,853	 140,234,853	 142,814,574	 -	 2,579,721
EXPENDITURES:					
Current:					
General government:					
Personal services.....	5,503,347	5,433,347	5,119,713	74,596	239,038
Other expenses.....	2,386,176	2,330,975	1,827,288	198,122	305,565
 TOTAL.....	 7,889,523	 7,764,322	 6,947,001	 272,718	 544,603
Public safety:					
Personal services.....	14,156,046	14,156,046	13,281,816	-	874,230
Other expenses.....	1,498,776	1,573,777	1,345,021	162,942	65,814
 TOTAL.....	 15,654,822	 15,729,823	 14,626,837	 162,942	 940,044
Education:					
Personal services.....	56,173,851	56,217,707	56,217,700	-	7
Other expenses.....	13,786,740	13,761,345	13,335,410	424,478	1,457
 TOTAL.....	 69,960,591	 69,979,052	 69,553,110	 424,478	 1,464
Municipal services:					
Personal services.....	4,882,097	4,882,097	4,727,340	-	154,757
Other expenses.....	5,476,774	5,875,313	5,592,830	220,454	62,029
 TOTAL.....	 10,358,871	 10,757,410	 10,320,170	 220,454	 216,786
Community services:					
Personal services.....	1,273,316	1,273,327	1,273,327	-	-
Other expenses.....	501,310	501,297	468,614	17,194	15,489
 TOTAL.....	 1,774,626	 1,774,624	 1,741,941	 17,194	 15,489

(Continued)

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Amounts	Variance
	Original Budget	Final Budget	Actual Amounts	Carried Forward To Next Year	To Final Budget
Library:					
Personal services.....	1,915,603	1,915,604	1,915,604	-	-
Other expenses.....	620,000	619,999	607,984	2,806	9,209
TOTAL.....	2,535,603	2,535,603	2,523,588	2,806	9,209
Pension benefits.....	5,935,944	5,746,224	5,746,224	-	-
Property and liability insurance.....	680,653	780,373	777,873	500	2,000
Employee benefits.....	14,525,000	15,600,000	15,600,000	-	-
State and county charges.....	2,809,351	2,809,351	2,817,601	-	(8,250)
Debt service:					
Principal.....	6,769,500	6,744,500	6,744,500	-	-
Interest.....	2,483,686	2,446,092	2,296,280	-	149,812
TOTAL.....	9,253,186	9,190,592	9,040,780	-	149,812
TOTAL EXPENDITURES.....	141,378,170	142,667,374	139,695,125	1,101,092	1,871,157
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,143,317)	(2,432,521)	3,119,449	(1,101,092)	4,450,878
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds and notes.....	-	-	773,354	-	773,354
Transfers in.....	2,182,552	2,182,552	2,182,552	-	-
Transfers out.....	(2,360,000)	(3,260,000)	(3,260,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)....	(177,448)	(1,077,448)	(304,094)	-	773,354
NET CHANGE IN FUND BALANCE.....	(1,320,765)	(3,509,969)	2,815,355	(1,101,092)	5,224,232
BUDGETARY FUND BALANCE, Beginning of year.....	8,409,748	8,409,748	8,409,748	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 7,088,983	\$ 4,899,779	\$ 11,225,103	\$ (1,101,092)	\$ 5,224,232

See notes to required supplementary information.

(Concluded)

Retirement System Schedule of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the Town is one participating employer, about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

ANDOVER CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress
(Dollar Amounts Reported in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 95,692	\$ 192,534	\$ 96,842	50%	\$ 34,436	281%
01/01/10	92,289	167,447	75,158	55%	32,416	232%
01/01/07	99,953	136,899	36,946	73%	30,468	121%
01/01/04	81,431	104,232	22,801	78%	27,551	83%
01/01/01	69,752	86,928	17,176	80%	24,596	70%
01/01/99	59,350	76,915	17,565	77%	21,631	81%
01/01/98	48,768	71,164	22,396	69%	20,700	108%

Schedule of Employer Contributions

Year Ended	System Wide			Town of Andover	
	Annual Required Contributions	Actual Contributions Made	Percentage Contributed	Actual Contributions Made	Town Contributions as a Percentage of System Wide Contributions
2014	\$ 5,814,431	\$ 5,814,431	100%	\$ 5,746,224	99%
2013	5,563,000	5,563,000	100%	5,495,131	99%
2012	5,151,000	5,151,000	100%	5,085,067	99%
2011	4,769,310	4,769,310	100%	4,712,555	99%
2010	4,634,088	4,634,088	100%	4,583,113	99%
2009	4,503,175	4,503,175	100%	4,458,594	99%
2008	4,384,052	4,384,052	100%	4,341,568	99%
2007	4,099,897	4,099,897	100%	4,058,898	99%
2006	3,910,205	3,910,205	100%	3,865,238	99%
2005	3,580,864	3,580,864	100%	3,545,055	99%

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2013	\$ 1,101,668	\$ 145,915,338	\$ 144,813,670	0.8%	\$ 87,599,000	165.3%
6/30/2011	704,000	215,258,000	214,554,000	0.3%	87,023,000	246.5%
6/30/2009	-	245,108,000	245,108,000	0.0%	80,768,000	303.5%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2014	\$ 12,030,000	\$ 7,010,000	58%
2013	11,423,000	5,493,000	48%
2012	16,523,000	6,075,000	37%
2011	15,439,000	5,879,000	38%
2010	19,029,000	5,548,000	29%
2009	18,051,000	5,363,000	30%

The Town implemented GASB Statement No. 45 for the year ended June 30, 2009.
Information for prior years is not available.

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	June 30, 2013
Actuarial cost method.....	Projected unit credit
Amortization method.....	Payments increasing at 3.75%
Remaining amortization period.....	30 years open

Actuarial Assumptions:

Discount rate.....	5.75%
Medical/drug cost trend rate.....	8.5% graded to 5.0% over 7 years
Inflation rate.....	3.75%

Plan Membership:

Current retirees, beneficiaries, and dependents.....	941
Current active members.....	<u>944</u>
Total.....	<u><u>1,885</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Town Manager presents an annual budget to the Board, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. A majority vote at Town Meeting has full authority to amend and/or reject the budget or any line item.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Board approval via a Town Meeting vote.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Board.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2014 approved budget authorized approximately \$143.7 million in appropriations and other amounts to be raised. During 2014, Town Meeting also approved supplemental appropriations totaling \$2.2 million. The purpose of the supplemental appropriations was to fund snow and ice removal, the purchase of land and building renovations for the Ballardvale fire station, and additional funding for the OPEB and general stabilization funds.

The Municipal Relief Act in accordance with MGL Chapter 44, Section 33B, allows the Board, with the concurrence of the Finance Committee, to transfer appropriations during the last two months of the year or during the first 15 days of the new year.

The Town Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2014, is presented below:

Net change in fund balance - budgetary basis.....	\$ 2,815,355
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	1,271,376
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts.....	181,386
Net change in recording tax refunds payable.....	(372,000)
Recognition of revenue for on-behalf payments.....	13,236,744
Recognition of expenditures for on-behalf payments.....	<u>(13,236,744)</u>
Net change in fund balance - GAAP basis.....	\$ <u>3,896,117</u>

NOTE B – PENSION PLAN

The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$13,236,744 for the year ended June 30, 2014, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Andover Contributory Retirement Board and are borne by the System.

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding years apportionment of the annual pension cost between the two employers required the Town to contribute 99%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

At June 30, 2014, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases ranging from 7.00% decreasing to 4.75% after 9 years of service for group 1, ranging from 7.00% decreasing to 5.00% after 7 years of service for group 2, and ranging from 8.00% decreasing to 5.25% after 8 years for group 4 employees. The actuarial value of the System's assets was determined in accordance with the deferred recognition method. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an increasing basis. The remaining amortization period at June 30, 2014, was 26 years. The System is scheduled to be fully funded by 2040 which meets the MGL requirement of full funding. The Town's funded rate was 50% as of the last actuarial valuation.

The schedule of funding progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the Town is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan ("The Retiree Health Plan"). The plan provides lifetime healthcare insurance and life insurance for eligible retirees and their spouses through the Town's group health and life insurance plans, which covers both active and retired members including teachers.

The Town currently finances its other postemployment benefits (OPEB) on a combined pre-funded and a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is .8%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress and Employer Contributions presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

Combining and Individual Fund Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Town Grants/Other Revolving Funds – This fund is used to account for the non-school related activity of revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and grant funds received from state and federal governments which are designated for specific programs.

School Grants/Other Revolving Funds – This fund is used to account for the school department's revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and Chapter 71 and grant funds received from state and federal governments which are designated for specific programs.

School Lunch Fund – This fund is used to account for all cafeteria activities and is funded by user charges, federal and state grants and commodities received.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Road/Drainage Projects – This fund is used to account for road and drainage projects other than state funded highway projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Conservation Projects – This fund is used to account for major conservation capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Youth Center – This fund is used to account for the construction of a new Cormier Youth Center. The project is being funded by the issuance of long-term bonds, private donations and other fund raising activities.

Municipal Buildings – This fund is used to account for major municipal building capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Other Projects – This fund is used to account for smaller capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support governmental programs.

Cemetery – This fund is used to account for cemetery contributions and bequests in which the earnings may be expended for cemetery purposes.

Library Trust Funds – This fund is used to account for gifts, bequests and contributions in which the earnings may be expended for purposes specified by the donor in relation to library activities.

Town Welfare/Other Trust Funds – This fund accounts for all non-library and cemetery related contributions and bequests in which the earnings may be expended for purposes specified by the donor in relation to other Town activities.

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2014

	<i>Special Revenue Funds</i>			
	Town Grants/ Other Revolving	School Grants/ Other Revolving	School Lunch	Sub-total
ASSETS				
Cash and cash equivalents.....	\$ 3,271,084	\$ 2,714,425	\$ 427,368	\$ 6,412,877
Investments.....	2,314,687	-	-	2,314,687
Departmental and other.....	142,764	-	-	142,764
Intergovernmental.....	-	433,481	-	433,481
TOTAL ASSETS.....	\$ 5,728,535	\$ 3,147,906	\$ 427,368	\$ 9,303,809
LIABILITIES				
Warrants payable.....	\$ 703,898	\$ 24,411	\$ 841	\$ 729,150
Accrued payroll.....	69,575	141,971	33,190	244,736
TOTAL LIABILITIES.....	773,473	166,382	34,031	973,886
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues.....	138,899	-	-	138,899
FUND BALANCES				
Nonspendable.....	-	-	-	-
Restricted.....	4,816,163	2,981,524	393,337	8,191,024
TOTAL FUND BALANCES.....	4,816,163	2,981,524	393,337	8,191,024
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES....	\$ 5,728,535	\$ 3,147,906	\$ 427,368	\$ 9,303,809

Capital Project Funds					
Road/ Drainage Projects	Conservation	Youth Center	Municipal Buildings	Other	Sub-total
\$ 3,369,440	\$ 45,640	\$ 2,699,250	\$ 922,643	\$ 3,697,681	\$ 10,734,654
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 3,369,440</u>	<u>\$ 45,640</u>	<u>\$ 2,699,250</u>	<u>\$ 922,643</u>	<u>\$ 3,697,681</u>	<u>\$ 10,734,654</u>
\$ 16,893	\$ 355	\$ -	\$ -	\$ 125,828	\$ 143,076
3,024	-	150	-	11,782	14,956
<u>19,917</u>	<u>355</u>	<u>150</u>	<u>-</u>	<u>137,610</u>	<u>158,032</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>3,349,523</u>	<u>45,285</u>	<u>2,699,100</u>	<u>922,643</u>	<u>3,560,071</u>	<u>10,576,622</u>
<u>3,349,523</u>	<u>45,285</u>	<u>2,699,100</u>	<u>922,643</u>	<u>3,560,071</u>	<u>10,576,622</u>
<u>\$ 3,369,440</u>	<u>\$ 45,640</u>	<u>\$ 2,699,250</u>	<u>\$ 922,643</u>	<u>\$ 3,697,681</u>	<u>\$ 10,734,654</u>

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2014

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery	Library	Town Welfare/ Other	Sub-total	
ASSETS					
Cash and cash equivalents.....	\$ 1,097,484	\$ 508,834	\$ 233,848	\$ 1,840,166	\$ 18,987,697
Investments.....	-	-	-	-	2,314,687
Departmental and other.....	-	-	-	-	142,764
Intergovernmental.....	-	-	-	-	433,481
TOTAL ASSETS.....	<u>\$ 1,097,484</u>	<u>\$ 508,834</u>	<u>\$ 233,848</u>	<u>\$ 1,840,166</u>	<u>\$ 21,878,629</u>
LIABILITIES					
Warrants payable.....	\$ -	\$ -	\$ -	\$ -	\$ 872,226
Accrued payroll.....	-	-	-	-	259,692
TOTAL LIABILITIES.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,131,918</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues.....	-	-	-	-	138,899
FUND BALANCES					
Nonspendable.....	870,109	350,826	40,803	1,261,738	1,261,738
Restricted.....	<u>227,375</u>	<u>158,008</u>	<u>193,045</u>	<u>578,428</u>	<u>19,346,074</u>
TOTAL FUND BALANCES.....	<u>1,097,484</u>	<u>508,834</u>	<u>233,848</u>	<u>1,840,166</u>	<u>20,607,812</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	<u>\$ 1,097,484</u>	<u>\$ 508,834</u>	<u>\$ 233,848</u>	<u>\$ 1,840,166</u>	<u>\$ 21,878,629</u>

(Concluded)

This page intentionally left blank.

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2014

	<i>Special Revenue Funds</i>				
	Town Grants/ Other Revolving	School Grants/ Other Revolving	Youth Center/ Doherty School	School Lunch	Sub-total
REVENUES:					
Charges for services.....	\$ 273,643	\$ -	\$ -	\$ -	\$ 273,643
Fees.....	372,979	-	-	-	372,979
Intergovernmental.....	402,789	3,807,550	-	422,639	4,632,978
Departmental and other.....	3,222,354	2,487,031	-	1,878,414	7,587,799
Contributions.....	1,994,540	21,000	-	-	2,015,540
Investment income.....	41,678	-	-	-	41,678
TOTAL REVENUES.....	6,307,983	6,315,581	-	2,301,053	14,924,617
EXPENDITURES:					
Current:					
General government.....	746,149	-	-	-	746,149
Public safety.....	1,494,042	-	-	-	1,494,042
Education.....	-	6,515,550	-	2,277,251	8,792,801
Municipal services.....	216,500	-	-	-	216,500
Community services.....	1,150,077	-	-	-	1,150,077
Library.....	20,495	-	-	-	20,495
Capital outlay.....	1,819,382	-	-	-	1,819,382
TOTAL EXPENDITURES.....	5,446,645	6,515,550	-	2,277,251	14,239,446
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	861,338	(199,969)	-	23,802	685,171
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	-	-
Transfers in.....	-	-	-	-	-
Transfers out.....	(2,092,735)	-	-	-	(2,092,735)
TOTAL OTHER FINANCING SOURCES (USES)...	(2,092,735)	-	-	-	(2,092,735)
NET CHANGE IN FUND BALANCES.....	(1,231,397)	(199,969)	-	23,802	(1,407,564)
FUND BALANCES AT BEGINNING OF YEAR.....	6,047,560	3,181,493	-	369,535	9,598,588
FUND BALANCES AT END OF YEAR.....	\$ 4,816,163	\$ 2,981,524	\$ -	\$ 393,337	\$ 8,191,024

<i>Capital Project Funds</i>					
Road/ Drainage Projects	Conservation	Youth Center	Municipal Buildings	Other	Sub-total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	200	-	-	-	200
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	200	-	-	-	200
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,707,371	72,650	900	147,842	1,544,984	4,473,747
2,707,371	72,650	900	147,842	1,544,984	4,473,747
(2,707,371)	(72,450)	(900)	(147,842)	(1,544,984)	(4,473,547)
300,000	-	2,000,000	-	975,000	3,275,000
124,000	-	700,000	400,000	2,390,000	3,614,000
-	-	-	-	-	-
424,000	-	2,700,000	400,000	3,365,000	6,889,000
(2,283,371)	(72,450)	2,699,100	252,158	1,820,016	2,415,453
5,632,894	117,735	-	670,485	1,740,055	8,161,169
\$ 3,349,523	\$ 45,285	\$ 2,699,100	\$ 922,643	\$ 3,560,071	\$ 10,576,622

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2014

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery	Library	Town Welfare/ Other	Sub-total	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 273,643
Fees and rentals.....	-	-	-	-	372,979
Intergovernmental.....	-	-	-	-	4,633,178
Departmental and other.....	-	-	-	-	7,587,799
Contributions.....	16,860	-	-	16,860	2,032,400
Investment income.....	7,016	10,142	4,488	21,646	63,324
TOTAL REVENUES.....	23,876	10,142	4,488	38,506	14,963,323
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	746,149
Public safety.....	-	-	-	-	1,494,042
Education.....	-	-	-	-	8,792,801
Public works.....	1,531	-	-	1,531	218,031
Human services.....	-	-	1,465	1,465	1,151,542
Library.....	-	14,366	-	14,366	34,861
Capital outlay.....	-	-	-	-	6,293,129
TOTAL EXPENDITURES.....	1,531	14,366	1,465	17,362	18,730,555
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	22,345	(4,224)	3,023	21,144	(3,767,232)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	-	3,275,000
Transfers in.....	-	-	-	-	3,614,000
Transfers out.....	(6,000)	-	-	(6,000)	(2,098,735)
TOTAL OTHER FINANCING SOURCES (USES)...	(6,000)	-	-	(6,000)	4,790,265
NET CHANGE IN FUND BALANCES.....	16,345	(4,224)	3,023	15,144	1,023,033
FUND BALANCES AT BEGINNING OF YEAR.....	1,081,139	513,058	230,825	1,825,022	19,584,779
FUND BALANCES AT END OF YEAR.....	\$ 1,097,484	\$ 508,834	\$ 233,848	\$ 1,840,166	\$ 20,607,812

(Concluded)

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Insurance Fund – This fund is used to account for the accumulation of costs associated with property and liability insurance.

Unemployment Compensation Fund – This fund is used to account for the accumulation of costs, and employee contributions associated with unemployment compensation.

Health Insurance Fund – This fund is used to account for the accumulation of costs, and employer and employee contributions associated with health insurance.

Worker's Compensation Fund – This fund is used to account for the accumulation of costs, and employer contributions associated with worker's compensation.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Insurance</u>	<u>Unemployment Compensation</u>	<u>Health Insurance</u>	<u>Worker's Compensation</u>	<u>Total Internal Service Funds</u>
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 178,604	\$ 59,446	\$ 1,451,601	\$ 103,665	\$ 1,793,316
LIABILITIES					
CURRENT:					
Warrants payable.....	-	-	1,545	-	1,545
Workers' compensation.....	-	-	-	30,000	30,000
Total current liabilities.....	-	-	1,545	30,000	31,545
NONCURRENT:					
Workers' compensation.....	-	-	-	268,000	268,000
TOTAL LIABILITIES.....	-	-	1,545	298,000	299,545
NET POSITION					
Unrestricted.....	\$ 178,604	\$ 59,446	\$ 1,450,056	\$ (194,335)	\$ 1,493,771

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

	Insurance	Unemployment Compensation	Health Insurance	Worker's Compensation	Total Internal Service Funds
OPERATING REVENUES:					
Employee contributions	\$ -	\$ -	\$ 3,882,288	\$ -	\$ 3,882,288
Employer contributions	-	200,000	13,945,605	97,554	14,243,159
Intergovernmental.....	-	-	480,864	-	480,864
TOTAL OPERATING REVENUES	-	200,000	18,308,757	97,554	18,606,311
OPERATING EXPENSES:					
Employee benefits	-	155,814	18,010,932	27,447	18,194,193
Insurance.....	31,135	-	-	-	31,135
TOTAL OPERATING EXPENSES	31,135	155,814	18,010,932	27,447	18,225,328
OPERATING INCOME (LOSS).....	(31,135)	44,186	297,825	70,107	380,983
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	374	148	1,030	-	1,552
CHANGE IN NET POSITION.....	(30,761)	44,334	298,855	70,107	382,535
NET POSITION AT BEGINNING OF YEAR.....	209,365	15,112	1,151,201	(264,442)	1,111,236
NET POSITION AT END OF YEAR.....	\$ 178,604	\$ 59,446	\$ 1,450,056	\$ (194,335)	\$ 1,493,771

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

	Insurance	Unemployment Compensation	Health Insurance	Worker's Compensation	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ -	\$ -	\$ 3,882,288	\$ -	\$ 3,882,288
Receipts from interfund services provided.....	-	200,000	13,945,605	97,554	14,243,159
Receipts from other governments.....	-	-	480,864	-	480,864
Payments to vendors.....	(31,135)	-	-	-	(31,135)
Payments to employees.....	-	-	(92,706)	-	(92,706)
Payments for interfund services used.....	-	(155,814)	(17,926,481)	(68,447)	(18,150,742)
NET CASH FROM OPERATING ACTIVITIES.....	(31,135)	44,186	289,570	29,107	331,728
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income.....	374	148	1,030	-	1,552
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(30,761)	44,334	290,600	29,107	333,280
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	209,365	15,112	1,161,001	74,558	1,460,036
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 178,604	\$ 59,446	\$ 1,451,601	\$ 103,665	\$ 1,793,316
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ (31,135)	\$ 44,186	\$ 297,825	\$ 70,107	\$ 380,983
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Changes in assets and liabilities:					
Warrants payable.....	-	-	(8,255)	-	(8,255)
Workers' compensation.....	-	-	-	(41,000)	(41,000)
Total adjustments.....	-	-	(8,255)	(41,000)	(49,255)
NET CASH FROM OPERATING ACTIVITIES.....	\$ (31,135)	\$ 44,186	\$ 289,570	\$ 29,107	\$ 331,728

Agency Fund

This fund is primarily used to account for contactors security deposits, local church deposits, and receipts and disbursements on behalf of the Merrimack Valley Library Consortium.

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED JUNE 30, 2014

	Beginning of Year	Additions	Deletions	End of Year
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 761,222	\$ 1,979,078	\$ (1,540,167)	\$ 1,200,133
LIABILITIES				
Guaranteed deposits.....	\$ 62,936	\$ 559,733	\$ -	\$ 622,669
Other deposits.....	11,927	240	(232)	11,935
Merrimack Valley Library Consortium.....	57,443	200,293	(257,702)	34
Student Activities.....	628,916	1,218,812	(1,282,233)	565,495
TOTAL LIABILITIES.....	\$ 761,222	\$ 1,979,078	\$ (1,540,167)	\$ 1,200,133

Statistical Section



South Church

Statistical Section

This part of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

Financial Trends

- These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.

Revenue Capacity

- These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.

Debt Capacity

- These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.

Demographic and Economic Information

- These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.

Operating Information

- These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.

SOURCES: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Net Position By Component

Last Ten Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
Net investment in capital assets.....	\$ 91,145,822	\$ 89,418,470	\$ 91,189,027	\$ 91,685,536	\$ 89,103,313	\$ 93,007,654	\$ 93,315,362	\$ 97,503,961	\$ 104,403,021	\$ 113,445,872
Restricted.....	4,426,387	4,032,029	4,610,472	5,039,470	3,395,370	3,796,181	3,976,293	6,194,838	9,250,406	10,224,044
Unrestricted.....	9,873,633	12,307,988	10,474,688	666,172	(11,182,850)	(25,064,804)	(33,596,579)	(42,544,729)	(46,622,291)	(49,559,677)
Total governmental activities net position.....	\$ 105,445,842	\$ 105,758,487	\$ 106,274,187	\$ 97,391,178	\$ 81,315,833	\$ 71,739,031	\$ 63,695,076	\$ 61,154,070	\$ 67,031,136	\$ 74,110,239
Business-type activities										
Net investment in capital assets.....	46,027,798	44,383,954	45,396,161	46,338,405	47,347,751	47,583,170	47,534,459	46,353,252	45,822,689	45,559,159
Unrestricted.....	13,264,116	15,604,638	14,824,192	13,060,062	20,682,749	18,915,881	18,241,146	18,385,626	18,388,810	18,186,228
Total business-type activities net position.....	\$ 59,291,914	\$ 59,988,592	\$ 60,220,353	\$ 59,398,467	\$ 68,030,500	\$ 66,499,051	\$ 65,775,605	\$ 64,738,878	\$ 64,211,499	\$ 63,745,387
Primary government										
Net investment in capital assets.....	137,173,620	133,802,424	136,585,188	138,023,941	136,451,064	140,590,824	140,849,821	143,857,213	150,225,710	159,005,031
Restricted.....	4,426,387	4,032,029	4,610,472	5,039,470	3,395,370	3,796,181	3,976,293	6,194,838	9,250,406	10,224,044
Unrestricted.....	23,137,749	27,912,626	25,298,880	13,726,234	9,499,899	(6,148,923)	(15,355,433)	(24,159,103)	(28,233,481)	(31,373,449)
Total primary government net position.....	\$ 164,737,756	\$ 165,747,079	\$ 166,494,540	\$ 156,789,645	\$ 149,346,333	\$ 138,238,082	\$ 129,470,681	\$ 125,892,948	\$ 131,242,635	\$ 137,855,626

Changes in Net Position

Last Ten Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government.....	\$ 6,116,927	\$ 6,370,915	\$ 7,135,773	\$ 7,001,802	\$ 7,435,711	\$ 7,853,717	\$ 7,849,705	\$ 9,579,841	\$ 9,997,575	\$ 10,707,991
Plant and facilities.....	5,663,229	5,971,059	6,312,238	5,369,831	5,647,761	5,610,304	5,868,634	6,301,667	-	-
Public safety.....	17,246,901	17,782,178	17,692,134	21,417,994	21,464,611	20,464,627	21,454,951	21,019,992	21,349,177	21,952,531
Education.....	72,624,199	79,034,278	85,198,802	89,739,079	109,409,021	109,285,301	109,991,085	110,530,908	111,484,537	115,458,917
Public works.....	9,038,654	7,405,556	9,257,382	16,215,311	7,993,148	7,086,407	8,104,996	6,671,929	-	-
Municipal services.....	-	-	-	-	-	-	-	-	14,475,054	14,788,432
Community services.....	2,806,626	2,833,581	3,082,209	3,196,831	3,401,157	3,410,882	3,473,959	3,547,165	3,497,572	3,589,067
Library.....	3,326,096	3,433,876	3,748,315	3,969,982	4,230,163	4,158,325	4,004,711	3,330,995	3,291,536	3,411,150
Interest.....	3,028,040	2,569,615	3,079,688	2,610,346	2,157,682	1,692,345	1,733,882	1,813,401	2,180,097	2,102,376
Total government activities expenses.....	119,850,672	125,401,058	135,506,541	149,521,176	161,739,254	159,561,908	162,481,923	162,795,898	166,275,548	172,010,464
Business-type activities:										
Water.....	5,279,568	5,522,811	5,837,589	6,152,545	6,533,573	5,423,483	6,143,129	6,459,218	6,363,699	6,950,526
Sewer.....	3,418,402	3,920,303	3,698,176	4,065,119	4,273,853	4,662,645	4,438,234	4,157,552	4,173,881	3,765,263
Total business-type activities expenses.....	8,697,970	9,443,114	9,535,765	10,217,664	10,807,426	10,086,128	10,581,363	10,616,770	10,537,580	10,715,789
Total primary government expenses.....	\$ 128,548,642	\$ 134,844,172	\$ 145,042,306	\$ 159,738,840	\$ 172,546,680	\$ 169,648,036	\$ 173,063,286	\$ 173,412,668	\$ 176,813,128	\$ 182,726,253
Program Revenues										
Governmental activities:										
Public safety charges for services.....	\$ 5,047,096	\$ 4,173,141	\$ 3,880,398	\$ 4,326,730	\$ 3,790,779	\$ 3,755,724	\$ 3,649,023	\$ 4,179,923	\$ 5,376,825	\$ 4,879,683
Education charges for services.....	3,221,619	3,303,391	3,556,254	3,891,867	3,869,698	4,159,428	4,447,671	4,406,316	4,533,644	4,594,367
Other charges for services.....	2,217,961	2,459,937	2,757,509	3,275,730	2,992,813	3,458,043	2,980,246	3,263,775	3,017,848	3,197,405
Education operating grants and contributions.....	16,723,671	16,421,600	18,485,493	20,831,731	23,010,714	24,013,602	24,783,904	25,611,406	26,139,620	26,031,266
Other operating grants and contributions.....	1,592,768	2,054,108	2,386,728	2,042,371	2,822,588	2,024,443	1,759,998	1,607,599	1,191,156	1,438,710
General government capital grant and contributions.....	211,662	63,731	12,105	-	-	-	259,600	-	-	-
Municipal services capital grant and contributions.....	601,504	826,869	2,579,033	776,474	1,033,675	1,062,707	1,378,068	-	1,553,595	1,774,179
Education capital grant and contributions.....	-	-	-	-	-	-	-	-	7,690,079	7,013,590
Other capital grant and contributions.....	-	-	-	-	10,992	-	-	2,310,588	458,700	1,984,863
Total government activities program revenues.....	29,616,281	29,302,777	33,657,520	35,144,903	37,531,259	38,473,947	39,258,510	41,379,607	49,961,467	50,914,063
Business-type activities:										
Water charges for services.....	5,948,163	6,135,750	6,026,114	6,624,742	6,557,656	6107981	7,539,658	6,974,207	7,244,362	7,405,049
Sewer charges for services.....	3,287,453	3,200,763	3,900,287	4,274,584	4,048,056	4090182	3,995,288	4,236,585	4,241,515	4,457,073
Other capital grant and contributions.....	3,270,890	2,706,471	1,838,804	158,190	10,798,240	229,534	41,759	-	42,339	-
Total business-type activities program revenues.....	12,506,506	12,042,984	11,765,205	11,057,516	21,403,952	10,427,697	11,576,705	11,210,792	11,528,216	11,862,122
Total primary government program revenues.....	\$ 42,122,787	\$ 41,345,761	\$ 45,422,725	\$ 46,202,419	\$ 58,935,211	\$ 48,901,644	\$ 50,835,215	\$ 52,590,399	\$ 61,489,683	\$ 62,776,185
Net (Expense)/Program Revenue										
Governmental activities.....	\$ (90,234,391)	\$ (96,098,281)	\$ (101,849,021)	\$ (114,376,273)	\$ (124,207,995)	\$ (121,087,961)	\$ (123,223,413)	\$ (121,416,291)	\$ (116,314,081)	\$ (121,096,401)
Business-type activities.....	3,808,536	2,599,870	2,229,440	839,852	10,596,526	341,569	995,342	594,022	990,636	1,146,333
Total primary government net (expense)/program revenue.....	\$ (86,425,855)	\$ (93,498,411)	\$ (99,619,581)	\$ (113,536,421)	\$ (113,611,469)	\$ (120,746,392)	\$ (122,228,071)	\$ (120,822,269)	\$ (115,323,445)	\$ (119,950,068)

(continued)

Changes in Net Position

Last Ten Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Revenues and other Changes in Net Position										
Governmental activities:										
Real estate and personal property taxes, net of tax refunds payable.....	\$ 80,128,940	\$ 85,467,543	\$ 89,517,870	\$ 93,240,977	\$ 96,597,993	\$ 100,368,252	\$ 103,594,344	\$ 107,658,022	\$ 110,652,457	\$ 116,416,632
Tax liens.....	169,769	137,894	160,701	188,869	316,513	416,598	352,839	231,426	420,138	127,902
Motor vehicle excise taxes.....	4,695,077	4,737,214	4,665,464	4,704,891	4,407,674	4,510,747	4,722,659	4,530,897	4,903,920	4,970,746
Hotel/motel tax.....	777,164	702,732	1,040,438	897,765	860,090	962,298	1,288,661	1,353,137	1,526,835	1,496,945
Meals tax.....	-	-	-	-	-	136,239	478,403	517,177	547,235	506,658
Penalties and interest on taxes.....	335,008	279,901	314,296	410,491	303,184	286,866	409,888	416,902	298,550	554,802
Grants and contributions not restricted to specific programs.....	1,857,933	2,016,691	2,558,873	2,558,964	2,502,913	2,083,892	2,070,906	2,005,649	2,099,507	2,193,507
Unrestricted investment income.....	493,590	955,407	1,603,144	1,434,652	1,005,941	550,684	315,873	273,240	74,364	164,638
Miscellaneous.....	75,167	53,440	344,265	328,707	144,381	-	217,576	249,261	139,881	105,957
Transfers.....	<u>1,478,552</u>	<u>2,060,104</u>	<u>2,159,670</u>	<u>1,727,948</u>	<u>1,993,961</u>	<u>-</u>	<u>1,728,309</u>	<u>1,639,574</u>	<u>1,528,260</u>	<u>1,637,817</u>
Total governmental activities.....	<u>90,011,200</u>	<u>96,410,926</u>	<u>102,364,721</u>	<u>105,493,264</u>	<u>108,132,650</u>	<u>109,315,576</u>	<u>115,179,458</u>	<u>118,875,285</u>	<u>122,191,147</u>	<u>128,175,504</u>
Business-type activities:										
Unrestricted investment income.....	45,977	156,912	161,991	66,210	29,468	14,785	9,521	8,825	10,245	25,372
Transfers.....	<u>(1,478,552)</u>	<u>(2,060,104)</u>	<u>(2,159,670)</u>	<u>(1,727,948)</u>	<u>(1,993,961)</u>	<u>-</u>	<u>(1,728,309)</u>	<u>(1,639,574)</u>	<u>(1,528,260)</u>	<u>(1,637,817)</u>
Total business-type activities.....	<u>(1,432,575)</u>	<u>(1,903,192)</u>	<u>(1,997,679)</u>	<u>(1,661,738)</u>	<u>(1,964,493)</u>	<u>14,785</u>	<u>(1,718,788)</u>	<u>(1,630,749)</u>	<u>(1,518,015)</u>	<u>(1,612,445)</u>
Total primary government general revenues and other changes in net position.....	<u>\$ 88,578,625</u>	<u>\$ 94,507,734</u>	<u>\$ 100,367,042</u>	<u>\$ 103,831,526</u>	<u>\$ 106,168,157</u>	<u>\$ 109,330,361</u>	<u>\$ 113,460,670</u>	<u>\$ 117,244,536</u>	<u>\$ 120,673,132</u>	<u>\$ 126,563,059</u>
Changes in Net Position										
Governmental activities.....	\$ (223,191)	\$ 312,645	\$ 515,700	\$ (8,883,009)	\$ (16,075,345)	\$ (11,772,385)	\$ (8,043,955)	\$ (2,541,006)	\$ 5,877,066	\$ 7,079,103
Business-type activities.....	<u>2,375,961</u>	<u>696,678</u>	<u>231,761</u>	<u>(821,886)</u>	<u>8,632,033</u>	<u>356,354</u>	<u>(723,446)</u>	<u>(1,036,727)</u>	<u>(527,379)</u>	<u>(466,112)</u>
Total primary government changes in net position.....	<u>\$ 2,152,770</u>	<u>\$ 1,009,323</u>	<u>\$ 747,461</u>	<u>\$ (9,704,895)</u>	<u>\$ (7,443,312)</u>	<u>\$ (11,416,031)</u>	<u>\$ (8,767,401)</u>	<u>\$ (3,577,733)</u>	<u>\$ 5,349,687</u>	<u>\$ 6,612,991</u>

** In fiscal 2013, the Town consolidated its plant and facilities and public works department's forming a new municipal services functional line-item.

(concluded)

Fund Balances, Governmental Funds

Last Ten Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Reserved.....	\$ 1,436,861	\$ 1,860,571	\$ 2,694,727	\$ 1,370,990	\$ 491,022	\$ 1,208,156	\$ -	\$ -	\$ -	\$ -
Unreserved.....	7,747,231	7,529,898	4,549,236	3,691,825	3,015,527	3,250,042	-	-	-	-
Restricted.....	-	-	-	-	-	-	-	-	1,092,228	14,603,525
Committed.....	-	-	-	-	-	-	13,999	13,999	100,734	-
Assigned.....	-	-	-	-	-	-	817,053	2,197,122	1,181,371	18,986,220
Unassigned.....	-	-	-	-	-	-	8,106,788	10,772,493	12,715,770	-
Total general fund.....	<u>\$ 9,184,092</u>	<u>\$ 9,390,469</u>	<u>\$ 7,243,963</u>	<u>\$ 5,062,815</u>	<u>\$ 3,506,549</u>	<u>\$ 4,458,198</u>	<u>\$ 8,937,840</u>	<u>\$ 12,983,614</u>	<u>\$ 15,090,103</u>	<u>\$ 33,589,745</u>
All Other Governmental Funds										
Reserved.....	\$ 1,246,997	\$ 1,268,238	\$ 1,261,498	\$ 1,267,370	\$ 1,265,156	\$ 1,274,207	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds.....	5,864,877	6,171,737	9,068,114	9,627,901	9,586,198	10,747,094	-	-	-	-
Capital projects funds.....	3,519,167	1,747,126	1,933,994	1,323,779	(996,668)	226,609	-	-	-	-
Permanent funds.....	210,462	363,604	434,628	440,998	423,353	497,686	-	-	-	-
Nonspendable.....	-	-	-	-	-	-	1,259,811	1,274,750	1,278,486	-
Restricted.....	-	-	-	-	-	-	8,296,921	13,319,927	19,275,015	-
Unassigned.....	-	-	-	-	-	-	-	(2,174,741)	-	-
Total all other governmental funds.....	<u>\$ 10,841,503</u>	<u>\$ 9,550,705</u>	<u>\$ 12,698,234</u>	<u>\$ 12,660,048</u>	<u>\$ 10,278,039</u>	<u>\$ 12,745,596</u>	<u>\$ 9,556,732</u>	<u>\$ 12,419,936</u>	<u>\$ 20,553,501</u>	<u>\$ -</u>

The Town implemented GASB 54 in fiscal year 2011, fund balances prior to fiscal year 2011 have been reported in the pre-GASB 54 format.

Changes in Fund Balances, Governmental Funds

Last Ten Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues:										
Real estate and personal property taxes, net of tax refunds.....	\$ 80,108,798	\$ 85,233,515	\$ 89,296,522	\$ 93,215,670	\$ 96,792,126	\$ 100,472,493	\$ 103,357,190	\$ 107,820,244	\$ 110,384,336	\$ 116,681,066
Motor vehicle and other excise taxes.....	5,430,809	5,714,365	4,563,040	5,719,957	5,379,998	5,435,155	5,877,675	5,824,833	4,745,068	5,082,290
Intergovernmental.....	36,257,799	26,111,912	25,535,077	27,409,880	29,885,449	29,755,486	30,178,437	33,649,963	36,439,032	37,628,417
Departmental and other.....	11,228,315	10,075,153	12,333,309	12,437,475	11,448,429	12,460,238	13,073,732	14,524,170	16,343,246	18,403,347
Interest income.....	437,745	931,895	1,660,138	1,501,807	1,048,718	660,607	350,374	306,101	52,399	202,101
Total Revenue.....	133,463,466	128,066,840	133,388,086	140,284,789	144,554,720	148,783,979	152,837,408	162,125,311	167,964,081	177,997,221
Expenditures:										
General government.....	4,730,422	4,769,168	5,220,512	5,359,619	5,511,347	5,620,278	5,467,389	7,078,229	7,582,640	7,836,980
Plant and facilities.....	4,608,092	4,222,181	4,431,588	4,417,766	4,417,257	4,323,782	4,558,237	5,029,583	-	-
Public safety.....	13,597,144	13,682,564	13,571,517	16,457,065	16,121,617	15,013,636	15,740,379	15,373,742	15,961,083	16,120,879
Education.....	54,347,628	58,172,138	62,124,609	65,822,095	69,204,520	69,878,266	72,239,103	71,201,775	75,342,685	76,345,911
Public works.....	6,856,259	4,812,153	6,582,339	6,974,691	7,392,938	6,202,273	6,868,235	6,711,114	-	-
Municipal services.....	-	-	-	-	-	-	-	-	11,484,116	11,499,885
Community services.....	2,186,935	2,258,001	2,525,592	2,659,098	2,714,309	2,726,573	2,767,944	2,874,439	2,972,973	2,893,483
Library.....	2,431,694	2,547,324	2,674,266	2,697,413	2,729,703	2,659,866	2,656,682	2,547,398	2,532,582	2,558,449
Pension benefits.....	10,594,568	11,774,280	12,896,971	13,818,706	14,999,567	15,577,594	16,231,461	17,504,035	18,565,841	18,982,968
Property and liability insurance.....	834,889	744,326	762,947	657,483	562,014	485,701	734,996	827,013	717,613	777,873
Employee benefits.....	8,732,646	9,901,817	10,521,298	11,451,717	12,023,030	13,438,023	15,177,469	15,134,416	14,211,500	15,600,000
Claims and judgments.....	-	-	-	-	264,966	-	-	-	-	-
State and county charges.....	1,599,527	1,982,311	2,514,120	2,852,501	2,871,728	3,072,718	2,860,658	2,433,163	2,468,820	2,817,601
Capital outlay.....	5,275,759	6,707,917	5,210,089	7,856,215	7,547,507	5,717,723	7,213,849	7,729,883	22,004,956	32,305,218
Debt service:										
Principal.....	20,744,107	9,436,934	5,833,841	6,035,287	6,306,423	6,465,718	5,865,696	6,194,000	5,813,900	6,744,500
Interest.....	2,957,220	2,408,251	2,920,044	2,472,415	2,015,030	1,435,531	1,642,841	1,847,422	1,871,364	2,296,280
Total Expenditures.....	139,496,890	133,419,365	137,789,733	149,532,071	154,681,956	152,617,682	160,024,939	162,486,212	181,530,073	198,780,027
Excess of revenues over (under) expenditures.....	(6,033,424)	(5,352,525)	(4,401,647)	(9,247,282)	(10,127,236)	(3,833,703)	(7,187,531)	(360,901)	(13,565,992)	(20,782,806)
Other Financing Sources (Uses)										
Issuance of bonds and notes.....	3,500,000	2,208,000	3,243,000	5,300,000	4,195,000	5,566,000	6,750,000	5,366,000	20,555,000	24,242,000
Issuance of refunding bonds.....	7,140,205	-	-	-	-	7,936,000	-	4,564,700	3,423,300	-
Premium from issuance of bonds.....	79,123	-	-	-	-	-	-	239,602	1,657,247	2,200,184
Premium from issuance of refunding bonds.....	158,596	-	-	-	-	892,842	-	446,698	599,483	-
Payments to refunded bond escrow agent.....	(7,233,797)	-	-	-	-	(8,951,608)	-	(4,986,695)	(3,957,244)	-
Transfers in.....	4,131,313	6,794,187	6,779,004	5,465,620	4,963,045	3,737,067	3,711,992	3,242,238	4,889,060	6,496,552
Transfers out.....	(2,652,761)	(4,734,083)	(4,619,334)	(3,737,672)	(2,969,084)	(1,927,392)	(1,983,683)	(1,602,664)	(3,360,800)	(4,858,735)
Total other financing sources (uses).....	5,122,679	4,268,104	5,402,670	7,027,948	6,188,961	7,252,909	8,478,309	7,269,879	23,806,046	28,080,001
Net change in fund balance.....	\$ (910,745)	\$ (1,084,421)	\$ 1,001,023	\$ (2,219,334)	\$ (3,938,275)	\$ 3,419,206	\$ 1,290,778	\$ 6,908,978	\$ 10,240,054	\$ 7,297,195
Debt service as a percentage of noncapital expenditures.....	7.27% (a)	6.46% (a)	6.52%	6.01%	5.68%	5.38%	4.94%	5.28%	4.84%	5.44%

Notes:

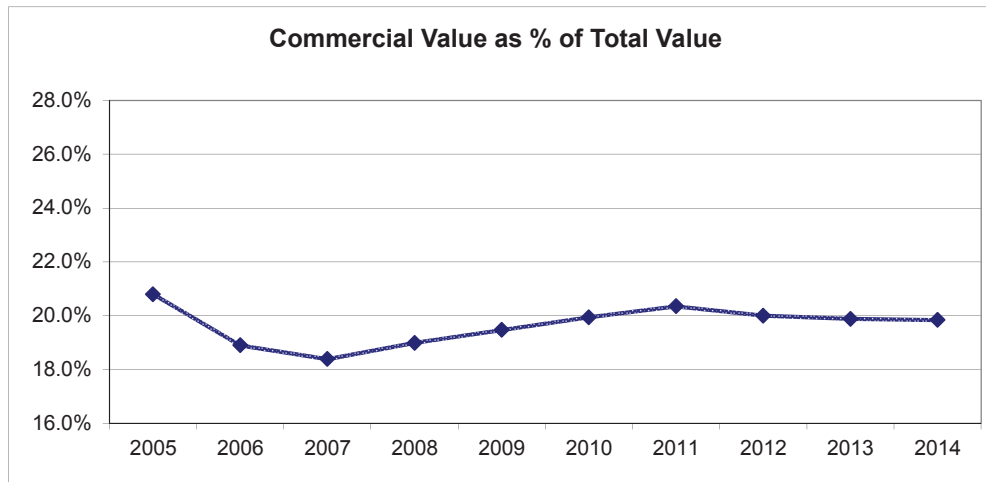
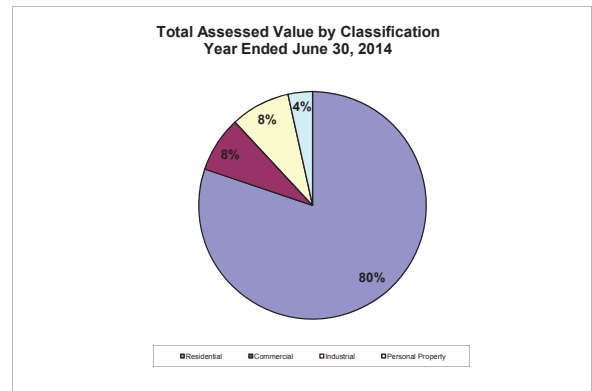
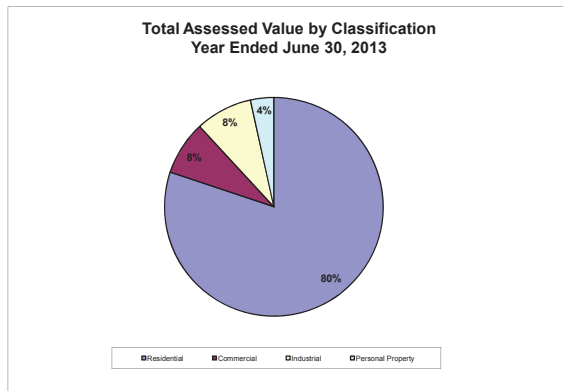
(a) - The FY05 and FY06 %'s have been adjusted to eliminate the effect of state school construction capital grants totaling \$15 million and \$3.8 million, respectively to pay down \$18.8 million in debt for both years.

** In fiscal 2013, the Town consolidated its plant and facilities and public works department's forming a new municipal services functional line-item.

Assessed Value and Actual Value of Taxable Property by Classification and Tax Rates

Last Ten Years

Year	Assessed and Actual Values and Tax Rates								
	Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total Town Value
2005	\$ 5,029,579,646	\$ 11.51	\$ 575,889,705	\$ 635,749,200	\$ 109,324,908	\$ 1,320,963,813	\$ 18.00	\$ 12.86	\$ 6,350,543,459
2006 (1)	\$ 5,519,162,801	\$ 11.40	\$ 556,557,746	\$ 635,623,100	\$ 94,200,625	\$ 1,286,381,471	\$ 17.95	\$ 12.64	\$ 6,805,544,272
2007	\$ 5,868,699,641	\$ 11.25	\$ 582,821,925	\$ 640,188,000	\$ 99,325,718	\$ 1,322,335,643	\$ 18.33	\$ 12.55	\$ 7,191,035,284
2008	\$ 5,815,988,951	\$ 11.69	\$ 585,151,793	\$ 642,310,600	\$ 136,301,731	\$ 1,363,764,124	\$ 19.13	\$ 13.10	\$ 7,179,753,075
2009 (1)	\$ 5,765,913,581	\$ 12.16	\$ 583,679,742	\$ 649,552,900	\$ 161,324,140	\$ 1,394,556,782	\$ 19.98	\$ 13.68	\$ 7,160,470,363
2010	\$ 5,473,846,761	\$ 13.19	\$ 566,418,366	\$ 624,853,500	\$ 172,538,617	\$ 1,363,810,483	\$ 21.33	\$ 14.81	\$ 6,837,657,244
2011	\$ 5,269,717,961	\$ 14.12	\$ 552,946,894	\$ 592,561,900	\$ 201,324,807	\$ 1,346,833,601	\$ 22.46	\$ 15.82	\$ 6,616,551,562
2012 (1)	\$ 5,438,632,321	\$ 14.15	\$ 547,695,778	\$ 578,692,200	\$ 233,484,947	\$ 1,359,872,925	\$ 23.54	\$ 16.03	\$ 6,798,505,246
2013	\$ 5,450,304,845	\$ 14.51	\$ 544,010,554	\$ 574,064,300	\$ 234,340,227	\$ 1,352,415,081	\$ 24.26	\$ 16.45	\$ 6,802,719,926
2014	\$ 5,483,302,185	\$ 15.18	\$ 541,616,314	\$ 578,490,500	\$ 237,117,137	\$ 1,357,223,951	\$ 25.25	\$ 17.18	\$ 6,840,526,136



(1) Revaluation year.

Source: Assessor's Department, Town of Andover

All property in the Commonwealth of Massachusetts is assessed at 100% of fair cash value.

Note: Chapter 59, Section 21C of the Massachusetts General Laws, known as "Proposition 2 1/2", imposes 2 separate limits on the annual tax levy of the Town. The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. The secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 percent, subject to an exception for property added to the tax rolls and for certain substantial valuation increases other than as part of a general revaluation. The secondary limit may be exceeded in any year by a majority vote of the voters, however it cannot exceed the primary limitation.

Principal Taxpayers

Current Year and Nine Years Ago

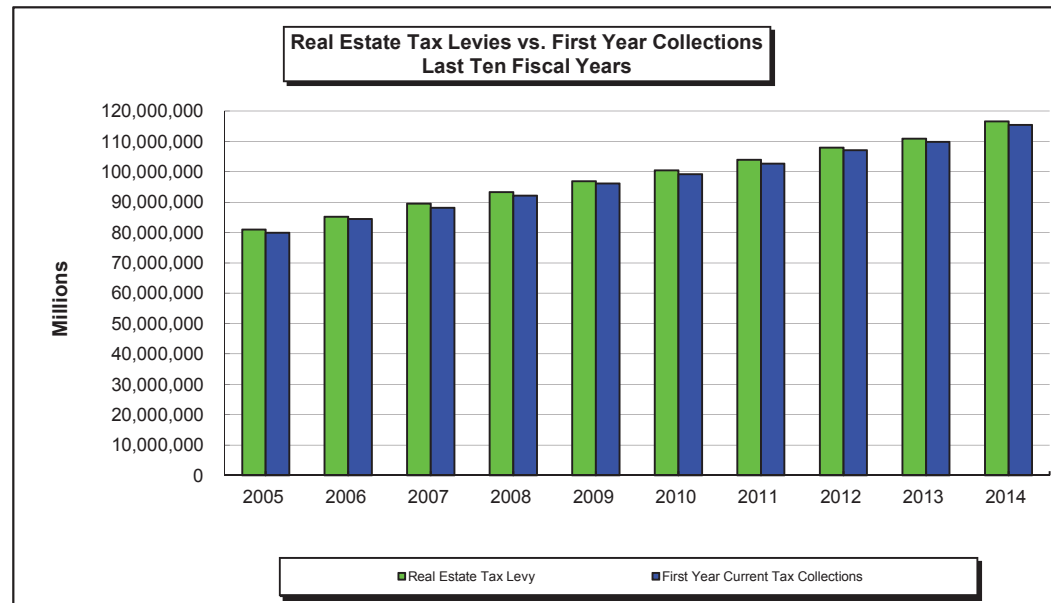
Name	Property Type	2014		Percentage of Total Taxable Assessed Value	2005		Percentage of Total Taxable Assessed Value
		Assessed Valuation	Rank		Assessed Valuation	Rank	
Wyeth Genetics	Industrial	\$ 81,422,700	1	1.19%	\$ 100,429,515	1	1.58%
Transwestern Brickstone Square LLC (Andover Mills)	Commercial	\$ 71,174,700	2	1.04%	\$ 80,145,300	2	1.26%
Eisai Research Institute	Commercial	\$ 67,692,690	3	0.99%	\$ 34,885,827	9	0.55%
Raytheon	Industrial/Residential	\$ 60,440,750	4	0.88%	\$ 74,286,843	3	1.17%
Philips Electro No American Corp	Industrial	\$ 49,755,300	5	0.73%	\$ 59,887,800	4	0.94%
Navisite, Inc	Commercial/Industrial	\$ 41,536,470	6	0.61%	\$ -	-	-
RREEF America REIT Corp	Commercial/Industrial	\$ 39,400,300	7	0.58%	\$ -	-	-
One Hundred Minute Man	Industrial	\$ 39,156,300	8	0.57%	\$ -	-	-
Proctor + Gamble (Gillette)	Industrial	\$ 35,989,200	9	0.53%	\$ 35,851,941	8	0.56%
Verizon New England	Com/Utility	\$ 34,247,000	10	0.50%	\$ -	-	-
Lincoln Andover LLC (Putnam Investments)	Commercial	\$ -	-	-	\$ 38,397,941	7	0.60%
Andover Park Realty Trust	Commercial	\$ -	-	-	\$ 39,228,300	6	0.62%
BCIA Holdings	Office/Industrial	\$ -	-	-	\$ 53,953,300	5	0.85%
New England Business Center LLC	Industrial/Utility	\$ -	-	-	\$ 33,992,700	10	0.54%
Totals		<u>\$520,815,410</u>		<u>7.61%</u>	<u>\$551,059,467</u>		<u>8.68%</u>

Source: Official Statement for Sale of Bonds

Property Tax Levies and Collections

Last Ten Years

Year		(2) Total Tax Levy	Less Abatements & Exemptions	(2) Net Tax Levy	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	(3) Percent of Total Tax Collections to Net Tax Levy
2005		\$ 81,667,810	\$ 700,105	\$ 80,967,705	\$ 79,932,648	98.72%	\$ 767,568	\$ 80,700,216	99.67%
2006	(1)	\$ 86,009,003	\$ 854,113	\$ 85,154,890	\$ 84,431,577	99.15%	\$ 809,483	\$ 85,241,060	100.10%
2007		\$ 90,261,283	\$ 754,410	\$ 89,506,873	\$ 88,153,719	98.49%	\$ 1,396,877	\$ 89,550,596	100.05%
2008		\$ 94,077,719	\$ 832,176	\$ 93,245,543	\$ 92,107,899	98.78%	\$ 1,017,380	\$ 93,125,279	99.87%
2009	(1)	\$ 97,976,754	\$ 1,127,947	\$ 96,848,807	\$ 96,086,383	99.21%	\$ 1,580,496	\$ 97,666,879	100.84%
2010		\$ 101,290,116	\$ 822,806	\$ 100,467,310	\$ 99,241,767	98.78%	\$ 574,223	\$ 99,815,990	99.35%
2011		\$ 104,658,300	\$ 772,521	\$ 103,885,779	\$ 102,625,682	98.79%	\$ 976,570	\$ 103,602,252	99.73%
2012	(1)	\$ 108,874,156	\$ 980,114	\$ 107,894,042	\$ 107,067,732	99.23%	\$ 846,936	\$ 107,914,668	100.02%
2013		\$ 111,893,513	\$ 985,564	\$ 110,907,949	\$ 109,842,289	99.04%	\$ 914,358	\$ 110,756,647	99.86%
2014		\$ 117,506,432	\$ 981,734	\$ 116,524,698	\$ 115,439,167	99.07%	\$ -	\$ 115,439,167	99.07%



(1) Revaluation year.

(2) Includes tax liens.

(3) If the actual abatements and exemptions are lower than the estimate, the actual collections can exceed the net levy.

Source: Assessor's Department, Town of Andover

Ratios of Outstanding Debt and General Bonded Debt

Last Ten Years

Year	U. S. Census Population	Personal Income	Assessed Value	Governmental Activities				
				General Obligation Bonds	Capital Leases	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2005	30,820	\$ 1,399,664,278	\$ 6,350,543,459	\$ 64,311,901	\$ -	\$ 2,087	4.59%	1.01%
2006	33,475	\$ 1,550,643,639	\$ 6,805,544,272	\$ 57,082,966	\$ -	\$ 1,705	3.68%	0.84%
2007	33,284	\$ 1,572,631,974	\$ 7,191,035,284	\$ 54,512,123	\$ -	\$ 1,638	3.47%	0.76%
2008	33,418	\$ 1,610,542,591	\$ 7,179,753,075	\$ 53,776,836	\$ -	\$ 1,609	3.34%	0.75%
2009	33,700	\$ 1,656,615,926	\$ 7,160,470,363	\$ 51,665,413	\$ -	\$ 1,533	3.12%	0.72%
2010	33,700	\$ 1,689,748,245	\$ 6,837,657,244	\$ 50,341,695	\$ -	\$ 1,494	2.98%	0.74%
2011	33,201	\$ 2,212,946,253	\$ 6,616,551,562	\$ 51,225,999	\$ -	\$ 1,543	2.31%	0.77%
2012	33,201	\$ 1,731,982,946	\$ 6,798,505,246	\$ 50,237,699	\$ -	\$ 1,513	2.90%	0.74%
2013	31,656	\$ 1,684,413,276	\$ 6,802,719,926	\$ 67,125,020	\$ -	\$ 2,120	3.99%	0.99%
2014	31,939	\$ 2,259,131,604	\$ 6,840,526,136	\$ 87,324,906	\$ -	\$ 2,734	3.87%	1.28%

Year	Business-type Activities (1)		Total Primary Government			
	General Obligation Bonds	Capital Leases	Total Debt Outstanding	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2005	\$ 29,851,101	\$ -	\$ 94,163,002	\$ 3,055	6.73%	1.48%
2006	\$ 27,072,035	\$ -	\$ 84,155,001	\$ 2,514	5.43%	1.24%
2007	\$ 34,974,512	\$ -	\$ 89,486,635	\$ 2,689	5.69%	1.24%
2008	\$ 41,495,469	\$ -	\$ 95,272,305	\$ 2,851	5.92%	1.33%
2009	\$ 40,949,009	\$ -	\$ 92,614,422	\$ 2,748	5.59%	1.29%
2010	\$ 37,567,707	\$ -	\$ 87,909,402	\$ 2,609	5.20%	1.29%
2011	\$ 35,602,018	\$ -	\$ 86,828,017	\$ 2,615	3.92%	1.31%
2012	\$ 33,731,282	\$ -	\$ 83,968,981	\$ 2,529	4.85%	1.24%
2013	\$ 33,435,605	\$ -	\$ 100,560,625	\$ 3,177	5.97%	1.48%
2014	\$ 35,054,316	\$ -	\$ 122,379,222	\$ 3,832	5.42%	1.79%

(1) Water and Sewer Funds

Source: Audited Financial Statements, U. S. Census, Division of Local Services

Direct and Overlapping Governmental Activities Debt

As of June 30, 2014

<u>Town of Andover, Massachusetts</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Greater Lawrence Regional Vocational Technical School District.....	\$ 23,971,000	1.4%	\$ 330,800
Greater Lawrence Sanitary District.....	28,879,674	5.2%	1,513,295
Merrimack Valley Transit Authority.....			<u>152,939</u>
Subtotal, overlapping debt.....			<u>1,997,034</u>
Town direct debt.....			<u>87,324,906</u>
Total direct and overlapping debt.....			<u>\$ 89,321,940</u>

Methodologies used to calculate overlapping debt:

Greater Lawrence Regional Vocational Technical School District:

The Town's overlap is based on pupil enrollment.

Greater Lawrence Sanitary District:

The Town's overlap is based on the percent of wastewater received by the District.

Merrimack Valley Transit Authority:

The Town's overlap is based on the proportion of the net cost incurred on routes within each member community.

Source: Official Statement for Sale of Bonds

Computation of Legal Debt Margin

Last Ten Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Equalized Valuation.....	\$ 6,525,840,900	\$ 7,353,584,000	\$ 7,353,584,000	\$ 7,757,246,000	\$ 7,757,246,000	\$ 7,757,246,000	\$ 7,405,664,700	\$ 7,292,906,600	\$ 7,292,906,600	\$ 7,120,772,800
Debt Limit -5% of Equalized Valuation.....	\$ 326,292,045	\$ 367,679,200	\$ 367,679,200	\$ 387,862,300	\$ 387,862,300	\$ 387,862,300	\$ 370,283,235	\$ 364,645,330	\$ 364,645,330	\$ 356,038,640
Less:										
Outstanding debt applicable to limit.....	59,455,259	59,278,195	61,905,809	67,551,997	67,875,220	66,300,155	67,504,073	65,805,248	67,161,942	68,448,149
Authorized and unissued debt.....	38,994,500	32,853,500	28,691,865	31,184,865	26,227,148	26,655,148	66,704,000	71,307,000	61,724,000	22,637,678
Legal debt margin.....	<u>\$ 227,842,286</u>	<u>\$ 275,547,505</u>	<u>\$ 277,081,526</u>	<u>\$ 289,125,438</u>	<u>\$ 293,759,932</u>	<u>\$ 294,906,997</u>	<u>\$ 236,075,162</u>	<u>\$ 227,533,082</u>	<u>\$ 235,759,388</u>	<u>\$ 264,952,813</u>
Total debt applicable to the limit as a percentage of debt limit.....	30.17%	25.06%	24.64%	25.46%	24.26%	23.97%	36.24%	37.60%	35.35%	25.58%

Source: Official Statement for Sale of Bonds

Demographic and Economic Statistics

Last Ten Years

Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	Unemployment Rate
2005	30,820	\$ 1,399,664,278	\$ 45,414	39.5	4.0%
2006	33,475	\$ 1,550,643,639	\$ 46,322	39.5	4.1%
2007	33,284	\$ 1,572,631,974	\$ 47,249	39.5	4.1%
2008	33,418	\$ 1,610,542,591	\$ 48,194	39.5	4.0%
2009	33,700	\$ 1,656,615,926	\$ 49,158	39.5	6.7%
2010	33,700	\$ 1,689,748,245	\$ 50,141	39.5	6.9%
2011	33,201	\$ 2,212,946,253	\$ 66,653	39.5	6.2%
2012	33,201	\$ 2,257,205,178	\$ 67,986	39.5	4.9%
2013	31,656	\$ 2,195,210,050	\$ 69,346	39.5	4.9%
2014	31,939	\$ 2,259,131,604	\$ 70,733	39.5	4.9%

Source: U. S. Census, Division of Local Services, Executive Office of Labor and Workforce Development
Median age is based on most recent census data.

Principal Employers (excluding Town)

Current Year and Nine Years Ago

Employer	Nature of Business	2014			2005		
		Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Raytheon Co & Endrock Associates	Missile Systems	4,750	1	16%	3,700	1	12%
Internal Revenue Services	Regional Service Center	3,500	2	12%	2,340	2	7%
Philips Medical	Medical Electronics	2,300	3	8%	2,200	3	7%
Pfizer	Biotechnology Research & Manufacturing	1,200	4	4%	1,400	6	4%
Putnam Investments	Mutual Funds	900	5	3%	1,800	4	6%
Vicor	Computer Equipment	850	6	3%	1,650	5	5%
Verizon	Communications	600	7	2%	905	8	3%
Philip Academy	Private School	555	8	2%	1,186	7	4%
Enterasys	Data Processing Services	500	9	2%	-	-	-
Hewlett Packard (Compaq)	Computer Equipment	500	10	2%	720	9	2%
Navisite	Internet Service Provider	-	-	-	600	10	2%

Source: Massachusetts Department of Workforce Development

Full-Time Equivalent Town Employees

Last Ten Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Full-Time Equivalents</u>										
Town.....	355	355	356	356	346	347	344	344	350	351
School.....	<u>758</u>	<u>761</u>	<u>780</u>	<u>784</u>	<u>794</u>	<u>768</u>	<u>772</u>	<u>762</u>	<u>799</u>	<u>867</u>
Total	<u>1,113</u>	<u>1,116</u>	<u>1,136</u>	<u>1,140</u>	<u>1,140</u>	<u>1,115</u>	<u>1,116</u>	<u>1,106</u>	<u>1,149</u>	<u>1,218</u>

Source: Finance Committee Report

Operating Indicators by Function/Program

Last Ten Calendar Years

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Population.....	30,820	33,475	33,284	33,418	33,700	33,700	33,201	33,201	31,656	31,942
Registered Voters, Annual Town Election.....	19,380	19,656	19,560	12,392	20,505	20,705	20,705	20,705	22,828	22,944
Town Clerk										
Births.....	272	258	321	249	257	220	220	220	206	239
Marriages.....	133	114	114	113	116	122	122	122	133	134
Deaths.....	260	290	279	290	274	233	233	233	229	255
Dogs licensed.....	2,230	2,400	2,365	2,493	2,580	2,469	2,469	2,469	2,527	2,468
Fishing & Hunting Licenses	265	266	300	300	248	244	244	244	-	-
Business Certificates.....	123	107	125	99	95	70	70	70	78	168
New Voter Registrations.....	931	1,501	1,320	1,735	927	1,296	1,296	1,296	2,433	960
Passport Applications.....	797	825	868	541	613	531	531	531	-	-
Public Safety										
Police										
Documented calls for police services.....	32,209	31,827	34,542	35,153	24,876	34,495	34,495	34,495	33,863	35,514
Arrests.....	578	622	635	694	536	496	496	496	412	420
Domestic Abuse.....	40	42	41	28	51	45	45	45	53	52
Vandalism.....	185	217	152	150	154	130	130	130	131	108
Larceny.....	458	353	343	487	381	257	257	257	313	329
Assaults.....	55	55	41	22	36	40	40	40	49	42
Breaking & Entering.....	69	60	61	61	75	73	73	73	50	50
Motor Vehicle accidents.....	1,007	971	1,057	899	903	924	924	924	847	850
Parking tickets issued.....	5,484	5,766	11,249	8,328	6,433	5,187	5,187	5,187	5,072	5,389
Total number of animal complaints.....	669	769	748	708	732	713	713	713	693	578
Fire										
Incidents										
Fires.....	1,279	1,159	979	1,077	1,070	923	923	923	766	690
EMS Calls.....	2,632	2,743	2,793	2,853	2,895	2,696	2,696	2,696	2,746	2,740
Motor Vehicle Accidents.....	265	279	301	241	263	255	255	255	288	308
Hazardous Conditions.....	227	258	253	246	308	280	280	280	312	276
False Alarms & False Calls.....	814	796	678	815	816	752	752	752	748	685
Miscellaneous Alarms.....	192	25	-	-	-	-	-	-	-	-
Good Intent Calls.....	141	130	117	133	150	126	126	126	129	93
Mutual Aid (Fire Calls).....	21	26	22	19	26	29	29	29	34	32
Ambulance Mutual Aid Calls.....	48	41	45	27	25	51	51	51	116	102

(continued)

Operating Indicators by Function/Program

Last Ten Calendar Years

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Fire Prevention Activities.....	1,730	1,658	1,158	1,299	1,202	939	939	939	945	1,754
Service Calls.....	2,421	2,159	2,366	2,222	2,090	408	408	408	499	425
Training.....	225	265	230	218	186	137	137	137	302	215
Co-Activation.....	57	77	77	132	131	141	141	141	130	146
Permits/certificates issued										
Smoke Detectors.....	1,038	718	558	442	446	450	450	450	574	575
Report Copies.....	57	62	58	64	71	60	60	60	48	58
Blasting Permits.....	44	9	4	1	0	2	2	2	-	2
Cutting/Welding Permits.....	24	18	-	33	20	31	31	31	31	34
Dumpster Permits.....	104	169	166	148	179	180	180	180	188	257
Fireworks Display Permits.....	1	2	1	2	2	1	1	1	2	3
Gunpowder Storage Permits.....	-	-	1	-	-	-	-	-	-	-
Liquid Gas Storage Permits.....	95	74	93	60	56	76	76	76	106	69
Flammable Liquid Storage Permits.....	9	34	15	109	27	47	47	47	47	46
Miscellaneous Permits.....	10	17	30	4	25	-	-	-	-	6
Open Air Burning Permits.....	437	517	435	326	489	519	519	519	365	255
Oil Burner Install Permits.....	110	127	131	148	117	147	147	147	100	113
Commercial Fire Alarm Systems.....	80	56	53	51	53	68	68	68	58	124
Special Suppression System Permits.....	9	10	8	12	-	2	2	2	6	13
Sprinkler Install Permits.....	69	66	59	63	47	72	72	72	90	64
Underground Tank Re-certification.....	10	8	3	16	4	18	18	18	14	19
Underground Tank Removals.....	41	49	56	93	54	58	58	58	91	67
Master Fire Alarm Boxes.....	20	20	-	-	-	-	-	-	-	-
Building Department Permits issued.....	1,284	1,487	1,270	1,288	1,191	1,345	1,345	1,345	1,252	1,652
Education Public school enrollment.....	6,026	6,018	5,939	6,127	6,171	6,121	6,121	6,121	6,262	6,110
Public Works Cemetery										
Lots sold.....	111	49	48	35	61	33	33	33	70	40
Interments/cremations.....	75	79	71	49	70	75	75	75	84	64

(continued)

Operating Indicators by Function/Program

Last Ten Calendar Years

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Human Services										
Board of Health										
Plan reviews.....	222	180	248	291	243	269	269	269	282	505
Inspections										
Restaurant	153	197	328	339	453	278	278	278	385	353
Environmental/Sanitary Code.....	194	240	386	388	346	322	322	322	418	403
Complaints investigated.....	277	202	-	-	114	138	138	138	101	98
Administrative Hearings.....	10	6	9	6	2	4	4	4	2	5
Court Actions.....	12	3	-	-	-	-	-	-	-	-
Council on Aging										
Home delivered meals served.....	26,520	28,776	30,521	25,479	17,794	25,589	25,589	25,589	21,012	22,764
Medical-van trips.....	1,785	1,785	-	-	1,082	1,399	1,399	1,399	1,502	1,352
Libraries										
Program attendance.....	8,131	16,110	14,356	5,855	16,429	16,664	16,664	16,664	17,016	22,570
Books & Periodicals.....	332,661	336,224	333,842	360,845	374,152	364,795	364,795	364,795	394,506	386,137
PC & Internet Use.....	50,757	54,454	52,508	62,828	67,362	76,124	76,124	76,124	65,780	53,965
Reference Questions.....	59,618	61,919	62,426	70,000	75,277	67,195	67,195	67,195	72,163	68,835
Non-Print Circulation.....	162,280	161,887	157,731	129,267	156,273	144,489	144,489	144,489	197,921	196,615
Sewer										
Service connections.....	5,850	5,850	6,100	6,100	6,200	6,200	6,200	6,200	6,200	6,200
Water										
Daily consumption (in million gallons).....	6.720	6.200	7.100	7.300	6.200	6.900	6.900	6.900	6.900	7.200

Source: Various Town Departments

(concluded)

Capital Asset Statistics by Function/Program

Last Ten Years

<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Government										
Number of Buildings.....	16	16	16	16	16	16	16	16	16	16
Police										
Number of Stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of Stations.....	3	3	3	3	3	3	3	3	3	3
Education										
Number of elementary schools.....	6	6	6	6	6	6	6	6	6	6
Number of middle schools.....	3	3	3	3	3	3	3	3	3	3
Number of high schools.....	1	1	1	1	1	1	1	1	1	1
Public Works										
Water mains (miles).....	235	235	235	235	235	235	235	235	235	235
Fire hydrants.....	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300
Sanitary sewers (miles).....	146	146	146	146	146	146	146	146	146	146
Storm sewers (miles).....	80	80	80	80	80	80	80	80	80	80
Culture and Recreation										
Playgrounds.....	14	14	14	14	14	14	14	14	14	14
Parks.....	4	4	4	4	4	4	4	4	4	4
Playgrounds - Acreage.....	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Parks - Acreage.....	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88
Public beaches.....	1	1	1	1	1	1	1	1	1	1
Ball fields.....	31	31	31	31	31	31	31	31	31	31
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various Town Departments

Computation of Levy Capacity and Unused Levy Capacity

Last Ten Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Levy Limit.....	\$ 82,285,046	\$ 86,010,409	\$ 87,189,479	\$ 94,111,774	\$ 97,209,952	\$ 101,350,979	\$ 104,729,225	\$ 109,075,475	\$ 112,609,324	\$ 117,859,068
Previous Levy.....	75,252,414	78,949,600	82,958,866	87,189,479	91,201,846	94,838,978	98,313,488	101,868,863	106,128,017	110,260,239
Legal Increase.....	1,881,310	1,973,740	2,073,972	2,179,737	2,280,046	2,370,974	2,457,837	2,546,722	2,653,200	2,756,506
New Growth.....	1,815,876	2,035,526	2,156,641	1,832,630	1,357,086	1,103,536	1,097,538	1,712,432	1,479,022	1,563,740
Debt Exclusion.....	<u>3,335,446</u>	<u>3,051,543</u>	<u>3,110,790</u>	<u>2,909,928</u>	<u>3,173,848</u>	<u>3,037,491</u>	<u>2,860,362</u>	<u>2,947,458</u>	<u>2,349,085</u>	<u>3,278,583</u>
Maximum Taxing Capacity...	<u>\$ 82,285,046</u>	<u>\$ 86,010,409</u>	<u>\$ 90,300,269</u>	<u>\$ 94,111,774</u>	<u>\$ 98,012,826</u>	<u>\$ 101,350,979</u>	<u>\$ 104,729,225</u>	<u>\$ 109,075,475</u>	<u>\$ 112,609,324</u>	<u>\$ 117,859,068</u>
Actual Levy.....	\$ 81,667,810	\$ 86,009,003	\$ 90,261,283	\$ 94,077,719	\$ 97,976,754	\$ 101,290,116	\$ 104,658,300	\$ 108,874,156	\$ 111,893,513	\$ 117,506,432
Unused Levy Capacity.....	\$ 617,236	\$ 1,406	\$ 38,986	\$ 34,055	\$ 36,072	\$ 60,863	\$ 70,925	\$ 201,319	\$ 715,811	\$ 352,636

Source: Assessor's Department, Town of Andover



World War II Memorial



Locke Lord Edwards
111 Huntington Avenue
Boston, MA 02199
Telephone: 617-239-0100
Fax: 617-227-4420
www.lockelord.com

(Date of Delivery)

David J. Reilly, Treasurer
Town of Andover
Andover, Massachusetts

\$7,155,000
Town of Andover, Massachusetts
General Obligation Municipal Purpose Loan of 2015 Bonds
Dated June 19, 2015

We have acted as bond counsel to the Town of Andover, Massachusetts (the “Town”) in connection with the issuance by the Town of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Town contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town, without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon

be, and continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except as expressed in paragraph 4 below, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

4. The Bonds are qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

LOCKE LORD LLP

AM 50586133.1

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Andover, Massachusetts (the “Issuer”) in connection with the issuance of its \$7,155,000 General Obligation Municipal Purpose Loan of 2015 Bonds dated June 19, 2015 (the “Bonds”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated June 11, 2015 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.
 8. Bond calls, if material, and tender offers.
 9. Defeasances.
 10. Release, substitution or sale of property securing repayment of the Bonds, if material.
 11. Rating changes.
 12. Bankruptcy, insolvency, receivership or similar event of the Issuer.*
 13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
 14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: June 19, 2015

TOWN OF ANDOVER,
MASSACHUSETTS

By _____
Treasurer

Selectmen

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

AM 50590649.1